

ULTIMATUM

Bush Sets Saturday Deadline for Iraq to Begin Withdrawal From Kuwait or Face Ground War

Iraqis Destroy Oil Wells In Kuwait

'Scorched Earth' Policy Carried Out, U.S. Asserts

By Barry James

President George Bush accused Iraq of carrying out a "scorched earth" policy in Kuwait as U.S. military officials reported that Iraqi forces had destroyed about 100 oil wells and other facilities in a 24-hour period.

In a statement issued in Baghdad, the Revolutionary Command Council denied the U.S. claim, and called for a United Nations committee made up of China, the Soviet Union and other countries not linked to the conflict to investigate war damage.

Rear Admiral Mike McConnell of the Joint Chiefs of Staff said in Washington that the new fires were in addition to 50 or more wells that had been observed blazing before Friday, either because they had been deliberately set ablaze or because they had been hit in allied bombing raids.

In addition, about 50 other wells had been damaged in earlier fires that have since gone out. This meant that about 200 of Kuwait's wells have been damaged by fire—about 20 percent of the total, the admiral said.

In Riyadh, Brigadier General Richard I. Neal of the Marines said more than 100 oil wells had been destroyed in the previous 24 hours. "They are all burning," he said.

The general said about a quarter of the Kuwaiti oil fields were covered with greasy black smoke.

Mr. Hussein "is carrying out his policy of destroying Kuwait," General Neal said.

"There seems to be an orchestrated, systematic destruction of

See SCORCH, Page 4



President Bush in the White House Rose Garden on Friday as he detailed the allied deadline for Iraqi withdrawal.

What the Allies Say Iraq Must Do

WASHINGTON—Following are the criteria spelled out for Iraq's withdrawal from Kuwait as contained in a statement by Martin Fitzwater, the White House spokesman.

• Iraq must begin large-scale military withdrawal from Kuwait by noon Saturday (New York time) and complete it within one week.

• Within the first 48 hours, Iraq must remove all its forces from Kuwait City and allow for the prompt return of the legitimate government of Kuwait.

• It must withdraw from all prepared defenses along the Saudi-Kuwaiti and Saudi-Iraqi borders, from Bubiyan and Warba Islands, and from the Ramallah oil field in Kuwait. Within the one week specified, Iraq must return all its forces to their positions of Aug. 1.

• Iraq must release all prisoners of war and third-country civilians and return the bodies of killed and deceased servicemen. This action must begin with the initiation of the withdrawal and be completed within 48 hours.

• Iraq must remove all explosives or booby traps, including those on Kuwaiti oil installations, and designate Iraqi military liaison officers to work with coalition forces on the operational details of withdrawal. Iraq must provide full information on the location and nature of any land or sea mines.

• Iraq must cease combat air fire, aircraft flights over Iraq and Kuwait, except for transport aircraft carrying troops out of Kuwait, and allow coalition aircraft exclusive control over and use of all Kuwaiti airspace.

• Iraq must cease all destructive actions against Kuwaiti citizens and property and release all Kuwaiti detainees.

The United States and its coalition partners repeated that their forces will not attack the retreating Iraqi forces.

Any breach of these terms will bring an instant and sharp response from coalition forces in accordance with United Nations Security Council Resolution 678.

1700 GMT Is Given As the Pullout Hour

By Paul F. Horvitz and Robert C. Siner

WASHINGTON—Delivering an ultimatum Friday on behalf of the allied coalition, President George Bush gave Saddam Hussein until 8 P.M. Saturday Baghdad time to accept allied terms for withdrawal from Kuwait and to begin pulling out occupation troops.

If Mr. Hussein does not heed the ultimatum, Mr. Bush declared, the allies will launch a ground attack. Coalition forces are expected to launch a war of unparalleled intensity from air, land and sea.

Mr. Bush said he was not frightened by Mr. Hussein's "disgraceful" terms. A spokesman for the Iraqi Foreign Ministry in Baghdad read a vituperative personal attack on Mr. Bush from the Revolutionary Command Council and urged that a UN commission be sent to Iraq and Kuwait to investigate war damage. (Page 3.)

Mr. Fitzwater said that nothing had been heard from the Iraqi leader. "Certainly," he said, "the 'scorched earth' policy that he has initiated in Kuwait only today does not lend us much reason for optimism."

American military officials said Friday that the Iraqis had begun systematically destroying hundreds of Kuwait oil wells and other facilities.

Mr. Bush, making clear that he had run out of patience with diplomatic moves to end the 37-day war, said, "The time has come to make public just exactly what is required of Iraq."

The deadline is 12 noon, New York time, on Saturday. That is 8 P.M. in Baghdad and in Kuwait City, or 1700 GMT.

But Mr. Bush did not make public when the invasion would begin. "We obviously are not going to telegraph in advance when we're going to start the ground force actions," Mr. Fitzwater said. "And we want to give Saddam Hussein the opportunity to take advantage of this withdrawal offer."

There was no offer of a ceasefire. The allies flew hundreds of sorties against Iraqi forces, and the 700,000 allied troops massed along the borders maneuvered to confine the Iraqi defenders before all-out war. They face 500,000 Iraqi soldiers in Kuwait and Iraq.

Major European allies supported the American position. France said that there was a "perfect identity of view" among coalition partners. Prime Minister John Major of Britain said the ultimatum was not negotiable.

"We are really not prepared to be strong any longer," Mr. Major said.

Mr. Bush's announcement of the ultimatum appeared to overtake the attempts of Soviet and Iraqi diplomats to negotiate a plan to avoid the ground war.

The Soviet presidential spokesman, Vitali N. Ignatenko, said Iraq had agreed to an immediate and unconditional withdrawal from Kuwait as soon as there was a full ceasefire.

Mr. Ignatenko said the agreement had been reached as part of a six-point plan following discussions between President Mikhail S. Gorbachev and Foreign Minister Tariq Aziz of Iraq.

"As soon as Saddam Hussein agrees to that plan," Mr. Ignatenko said, "the war is over."

But Mr. Bush, referring to the Iraqi-Soviet negotiations in Moscow, said that unless Iraq complied fully with allied terms, Mr. Hussein risked "subjecting the Iraqi people to further hardship."

The detailed ultimatum gives Iraq seven days to withdraw its troops from Kuwait, during which time retreating forces would not be subject to allied attack. It calls for the release of allied prisoners of war and for an Iraqi pullout from Kuwait City proper by Monday evening.

Mr. Bush said he appreciated the Soviet effort to fashion a peace plan in recent days, and he termed a proposal Thursday "more reasonable" than previous Iraqi declarations.

But he said it was a self-contradictory plan, promising an "unconditional" withdrawal while attaching conditions to it.

Chief among the conditions attached to the Moscow-Baghdad plan was the elimination of all UN resolutions concerning Iraq once Iraqi forces had withdrawn. The resolutions call for economic sanctions against Iraq and declare that "all necessary means" may be employed to restore security in the region.

"Needless to say," Mr. Bush said in a statement read on a White House portion, "any conditions would be unacceptable to the international coalition." He added that such conditions would not be in compliance with the United Nations demand for an immediate and unconditional Iraqi withdrawal.

As a sign of his lack of faith in President Hussein, Mr. Bush accused the Iraqi leader of launching a scorched-earth policy inside Kuwait by setting fire to more than 100 oil facilities there, "anticipating perhaps that he will now be forced to leave."

"They are destroying the entire oil production system of Kuwait," Mr. Bush said.

Sweeping Away the Tangled Web of Negotiations

By Joseph Fitchett

PARIS—With his ultimatum Friday, President George Bush punched through the nightmare scenario of a partial Iraqi surrender that threatened to bog down the allies and leave Saddam Hussein poised to claim a political victory.

Literally minutes before he announced the coalition's deadline, Mr. Bush was shown worldwide on television through the windows of his White House office tearing up papers. It was an image of his mood—that he had run out of patience with the frustrations and delays of seeking an understanding with Baghdad, ending with the Soviet bid at mediation.

Then Mr. Bush unfurled the allies' terms, crafted to resonate with the months

of Security Council summations to Iraq. The Soviet Union was firmly but politely asked to step aside, a gesture accompanied by a phrase acknowledging President Mikhail S. Gorbachev's good offices in seeking to broker a settlement that spared

both sides the fierce ground war that now looms.

After days when the U.S.-led coalition sometimes seemed at bay in the flurry of conflicting Iraqi signals, Mr. Bush dramatically regained the initiative for the United States and its allies with a final ultimatum to Baghdad.

In demanding an ignominious Iraqi retreat, Mr. Bush seemed to ride the momentum of Baghdad's crumbling position.

Statements in Moscow earlier Friday revealed that Saddam Hussein had jettisoned his earlier support for the Palestinian cause as part of the package he hoped would allow him to escape from Kuwait.

The coalition's decision to sweep away the negotiating web, despite Soviet efforts to extract more Iraqi concessions that would satisfy Washington, partly reflected a sense of urgency among allied commanders about the advantages of starting a ground campaign now.

By mid-March, the Muslim holy events, starting with the Ramadan fasting season, will inflame religious fervor and could strain the position of Saudi Arabia, with its special Islamic sensitivities.

Seasonal sandstorms also start late next month, and while allied commanders maintain confidently that their equipment

and tactics can withstand hotter, dustier conditions, the campaign could be slowed by bad weather.

Foreign Minister Roland Dumas of France cited these factors in explaining allied leaders' suspicions that Iraqi bargaining over Kuwait sought to fend off a military showdown in hopes that conditions would deteriorate for coalition forces.

Underlining the consensus that Mr. Hussein was playing for time, Mr. Dumas, speaking after a meeting in Paris of the European allies, said that all governments with forces in the Gulf shared "an identity of views" with the Bush administration in breaking off indirect talks with Iraq via Moscow.

Mr. Gorbachev himself had distanced

See ULTIMATUM, Page 4

Debriefing: Day 37

Sorties
□ More than 2,700 allied sorties were flown Friday, for total of about 91,000 in the 37 days since the war began. U.S. warplanes rained napalm and fuel-air bombs onto Iraqi positions in Kuwait.

□ Iraqi fired one Scud missile Friday toward Saudi Arabia, but it disintegrated over the Gulf. A total of 72 Scuds have now been fired, 37 toward Saudi Arabia and 35 at Israel.

Losses
□ One U.S. Marine was killed and five were wounded Friday in an artillery duel, for a total of 39 allied soldiers killed in action: 20 Americans and 19 Saudis.

□ Allied missing-in-action total remains 64: 51 Americans, British and French, 10 Saudis and 3 others.

□ About 100 Iraqi troops surrendered Friday in Kuwait when an observation jet swooped low over them. Iraqi prisoner-of-war total is now well above 2,100.

Iraqi Claims
□ More than 180 allied aircraft downed; no new reports Friday.

Assessment
□ Saddam has now launched a "scorched earth" policy against Kuwait, anticipating perhaps that he will now be forced to leave.

— President George Bush



American soldiers resting Friday after a steak lunch at their perimeter trench in the Saudi desert.

Iraqis Accept Plan For 21-Day Pullout

By Michael Dobbs

WASHINGTON—Kremlin spokesmen unveiled a plan Friday that Iraq's foreign minister endorsed, calling for a full Iraqi withdrawal from Kuwait within three weeks.

President Mikhail S. Gorbachev called world leaders to lobby support for the Kremlin initiative that has also been sent to members of the United Nations Security Council. He also spoke by phone for 90 minutes Friday evening with President George Bush in a conversation depicted by the Soviet press agency Tass as an example of close super-power cooperation.

The new six-point, Soviet-Iraqi plan proposes a much more leisurely timetable for Iraq's withdrawal from Kuwait than that contained in Mr. Bush's ultimatum. It also calls for the lifting of all Security Council resolutions against Iraq immediately after withdrawal, a point that could enable Baghdad to evade allied demands for huge war reparations.

The statement calls for the troop withdrawal to begin "the day after a ceasefire," in contrast to the U.S. ultimatum that does not mention a ceasefire. Withdrawal from Kuwait City would be completed in

the first four days and all POWs would be released and repatriated within three days of the ceasefire. [President Bush declined comment on the new Soviet proposal. "We're just talking about it. I don't know yet," he said. The Associated Press reported from Washington.

[The White House spokesman, Martin Fitzwater, said: "The revised plan was an improvement on one we heard last night. It comes closer. But it still has deficiencies. Suffice it to say it still doesn't meet our conditions."

"Our deadline is noon tomorrow and our plan is the marker to meet," Mr. Fitzwater said.]

Provisional agreement on the Kremlin plan was reached less than a day after the Iraqi foreign minister, Tariq Aziz, returned to Moscow for his second visit this week. It was then telegraphed to the Soviet Embassy in Baghdad—Iraqi communication lines have been interrupted—for formal approval by President Saddam Hussein.

Soviet officials said Friday night that they were still waiting for a formal reply from the Iraqi leader and the ruling Revolutionary Command Council. In a statement in Baghdad Friday night, the council

See PLAN, Page 4

Allies Drop Napalm on Iraqi Lines

Intensified allied bombing

U.S. warplanes pushed ahead Friday with preparations for an imminent ground offensive that could come within hours of the expiration of a U.S. ultimatum unless Iraq starts pulling its troops out of Kuwait.

The intensity of reconnaissance probes, artillery barrages and bombing raids along the 200-kilometer 120-mile front line was such as to cause Baghdad radio to announce that "the enemy has started the ground battle."

The U.S. military command in Riyadh and the Defense Department in Washington denied this, saying that once allied tanks start rolling forward the world would know it.

U.S. warplanes dropped napalm and fuel-air bombs onto Iraqi defenses but the U.S. command in Dhahran, Saudi Arabia, said the napalm was not being used against enemy troops.

Allied officials told an Associated Press correspondent in Dhahran that napalm, a flammable gel that was used to drive troops out of foxholes in the Vietnam War, was being used to set fire to the oil in trenches dug by Iraqi defenders to slow an allied invasion.

A senior Marine officer, who asked not to be named, said napalm's role in combat was to reach entrenched troops, "just like in Vietnam."

However, a U.S. command spokesman said napalm was used

See WAR, Page 4

Kiosk

Firing Erupts at Tirana Academy

VIENNA (AP)—Shooting erupted Friday night at an Albanian military academy where cadets reportedly were guarding a bust of the late dictator Enver Hoxha. State television said at least four people were killed.

The brief television report said one of those killed in Tirana was a policeman. The three others were not identified, but apparently died in a clash between anti-Communist demonstrators and supporters of the founder of Stalinist Albania. Fifty people were arrested, according to the report. Albanian radio, monitored in London, said two people were shot and killed, one of them a policeman.

Earlier article, Page 2

Gold	NY	Oil	W. TEXAS	The Dollar	In New York	Dow Jones
\$356.35		\$17.85		DM	1.5055	2,889.36
Down		Down		Pound	1.9445	Down
\$5.70		\$0.65		Yen	132.05	2.47
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A Big Job, for Friends Only

Cost of Kuwait Reconstruction May Hit \$100 Billion

By Stuart Auerbach

WASHINGTON—Contractors from allied nations are gearing up to start one of the biggest, most concentrated construction projects in history—the rebuilding of the emirate of Kuwait.

With Iraq reportedly now conducting a "scorched earth" policy in the oil-producing emirate, reconstruction could cost as much as \$100 billion. And Kuwait has promised the contractors to countries that are supporting the war effort.

About 70 percent of the 171 initial contracts awarded by Kuwait have gone to American companies, with the rest scattered among companies of European allies, Kuwaiti officials said.

Under plans drawn up by the U.S. Army Corps of Engineers, which has been hired by the Kuwaiti

government in exile to run the first phase of the operation, construction crews will start clearing rubble and repairing streets and seaports as soon as military commanders decide the country is secure from Iraqi snipers, mines and booby traps.

Kuwait has hired the Corps of Engineers under a \$45 million contract to run the first 90 days of the cleanup.

The Kuwaiti government is prepared to spend \$500 million to \$800 million more to restore emergency health care, sanitation, communications, transportation, utilities, food and water in the first three months after Iraqi forces are gone. Emergency action may also be needed to extinguish oil fires and salvage wrecked oil installations.

The Kuwaitis have ordered computers from Inter-

See REBUILD, Page 11

WAR IN THE GULF: Speaking for the U.S. allies, France sees 'a perfect identity of view' with the Bush statement

Europeans Display Unity in Backing Bush's Ultimatum

By Alan Riding
New York Times Service

PARIS — In a powerful display of trans-Atlantic unity, allied European countries gave their full backing Friday to Washington's ultimatum to President Saddam Hussein for an immediate withdrawal of Iraqi troops from Kuwait.

In a statement issued by the Western European Union, a regional defense body, its nine member governments also welcomed Soviet efforts to end the Gulf war as "a step in the right direction," but they rejected Iraq's attempt to attach conditions to its offer to pull out of Kuwait.

The European position was significant because it displayed none of the ambivalence or hesitation that occasionally characterized the region's reaction to the Gulf crisis during the months leading up to the war and in the days following the outbreak of hostilities.

Speaking in the name of the Western European Union, which held a high-level meeting in Paris, Foreign Minister Roland Dumas of France said European governments felt "perfect identity of view" with President George Bush's statement giving Baghdad 24 hours to announce a withdrawal from Kuwait.

Earlier, Prime Minister John Major of Britain, which like France has sent troops to the war front, said Mr. Bush would be speaking "on behalf of the allies." After the ultimatum was announced, he added: "We are really not prepared to be strung along any longer."

Both Mr. Major and President Francois Mitterrand of France were among European leaders who conferred by telephone with Mr. Bush during the course of the day to coordinate the anti-Iraq coalition's response to the draft peace plan announced in Moscow.

News of a revised Soviet plan aimed at satisfying the coalition's objections occurred late in the day in Europe, but European governments were expected to stand by the conditions for a cease-fire and withdrawal already announced by the White House.

After the meeting of the Western European Union, which includes Britain, France, Germany, Italy and Spain among its members, France's defense minister, Pierre Joxe, said "the start of ground operations has now been fixed" and he warned Iraq that it had only "a few hours" to respond.

"Everyone understands that a retreat from Kuwait can be done very rapidly," he said.

Endorsing the statement made in Washington "in the name of the coalition," a spokesman for Germany said "only Saddam Hussein has the chance to seize this opportunity to end the war and with it to end for people in the Gulf the suffering caused by Iraqi aggression."

Until the coalition's formal position was spelled out, regional governments focused their responses on the eight-point peace plan that emerged from the late night meeting in Moscow between President Mikhail S. Gorbachev and Foreign Minister Tariq Aziz of Iraq.

While several governments went out of their way to praise the Soviet leader for his initiative, a consensus quickly emerged that the plan was unacceptable because, in the diplomatic language of the Western European Union, "essential points remain imprecise and insufficient."

Mr. Major said they were an improvement on previous proposals, but "they still seem to fall a significant way short of the United Nations resolutions." Foreign Secretary Douglas Hurd of Britain said they were still not "what the whole world is waiting for."

The French Foreign Ministry said in a statement that the Soviet plan was "a step in the right direction and raises hopes of a peaceful solution to the Gulf crisis." But it added that there were still "ambiguities" that needed to be removed.

In Bonn, Chancellor Helmut Kohl referred to the Soviet plan in almost the same language, noting that it was essential "to see if this is just tactics on Saddam Hussein's part or whether there really is a will to come to a reasonable end to this terrible affliction."

A Ground War: 'You Will Know It When You See It'

International Herald Tribune

Although probes across the frontier and artillery batteries have been built up into a fair-sized military action, Lieutenant General Thomas W. Kelly, chief of operations for the Joint Chiefs of Staff in Washington, says it will be easy to tell if and when the war in the Gulf escalates to a full-scale ground offensive.

"I can just guarantee that you will know it when you see it, and it won't be patrolling," the general said.

He said the ground offensive could be the biggest since some of the huge tank and artillery battles in Russia in World War II.

"There would be a lot of violence perpetrated," he said.

Asked if there would be any formal war should probing turn to all-out war, General Kelly replied: "Well, of course, I would hope the best way that you would learn that the ground phase has begun is that we would tell you. And, of course, there are reporters in the theater."

Prime Minister Felipe Gonzalez of Spain described the Soviet peace effort as "extraordinarily positive," but he also stressed the importance of maintaining the "cohesion" of the anti-Iraq coalition and of eliminating "imprecisions" that could create a climate of distrust and block a settlement of the conflict.

Prime Minister Giulio Andreotti struck an optimistic note, saying that the overnight news from Moscow "rekindled confidence" in the possibility of ending the bloodshed, although he added that key points had still to be clarified. A statement from the Vatican said peace was now "within reach" in the Gulf.

Retreat of Most Iraqi Forces in Week Is Possible, Experts Say

By Leigh Bruce
International Herald Tribune

LONDON — Should President Saddam Hussein head to the timetable set by President George Bush, most Iraqi forces could be out of Kuwait within a week if the bulk of their heavy equipment is left behind, military experts said Friday.

President Hussein "could get them across the border all right, but he would not be able to take much with him," said General Sir Anthony Farrar-Hockley, a former British commander of North Atlantic Treaty Organization forces in northern Europe.

Sir Anthony said that Iraq should be able to move two divisions a day across the border, meaning that the entire occupation army would be on 10 to 11 days after the withdrawal began.

Meeting the U.S. demand to clear out of Kuwait City within 48 hours should be easy, he asserted.

Trevor Taylor of the Royal Institute on International Affairs said that with the poor state of road communications and of a large portion of Iraqi vehicles, "they could get out, but there'd be a lot of people on foot."

Moreover, he and other analysts said the retreat would require impressive organization.

"If he is granted the traditional 24-hour cease-fire before the full retreat is under way, Saddam Hussein's staff should be able to set up a plan for the retreat," Sir Anthony said.

The next step would be in communicating the withdrawal orders to the troops on the ground. Francis Tusa, European editor of the *Armed Forces Journal*, estimated that it might take up to 48 hours to get the message to all units, given the disruption of command and control caused by allied bombing.

"The Iraqi suggestion that it would need 48 hours to begin a withdrawal is not entirely unreasonable if you take into account the problems of organizing the whole thing and packing up," he said.

He pointed out that a spontaneous withdrawal without proper control by Iraqi commanders would result in a "massive traffic snarl-up" and delays.

The analysts asserted that the Iraqis could easily signal their good intentions.

'They could get out, but there'd be a lot of people on foot.'

Trevor Taylor, Royal Institute on International Affairs

by getting a division on the road within an hour of a cease-fire and by making it obvious to allied reconnaissance that the rest were getting ready to follow.

From the start of the process, liaison would have to be established between allied and Iraqi military forces. The Iraqis would hand over maps for mine fields and booby traps in Kuwait, and the two sides would establish immediate procedures for beginning to clear them.

The two sides would also establish how many Iraqi troops would be required to stay behind to help clear away the defensive fortifications that were built to withstand a ground offensive.

Procedures would have to be negotiated quickly for allied verification of the withdrawal, particularly if the Iraqis were forbidden to take heavy equipment. "The allies would designate three routes for the retreat, and post observers along the routes to ensure no conditions were violated," Mr. Tusa said.

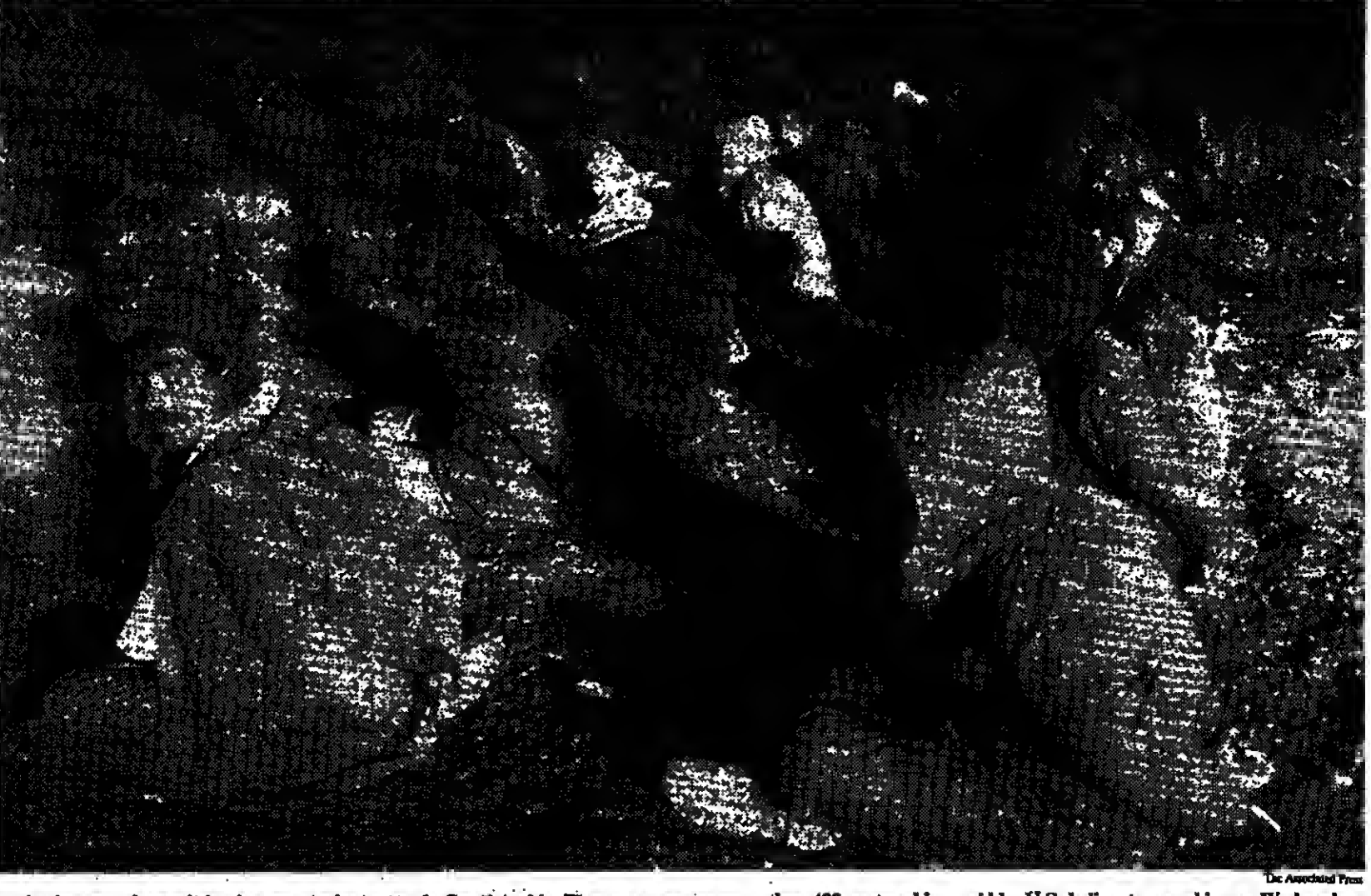
Allied forces would have to have full freedom to patrol Kuwait with airplanes and helicopters as the main means of verifying a quick withdrawal. Any forces straying from the designated areas would be immediately attacked, the analysts said.

They said the biggest problems would most likely be caring for the Iraqi wounded and removing the dead, feeding the retreating army and ensuring that the Iraqis have enough fuel to keep their trucks going.

"There will have to be some kind of agreement covering people who can't be moved," Sir Anthony said. He added that many Iraqi tracked vehicles, which have barely moved since the start of the war, would probably have severe engine and track problems.

Moreover, when the allies destroyed roads and bridges in Iraq, they ensured that it would be difficult for the Iraqis to supply their troops in Kuwait. "But it also ensured that it will be extremely difficult to move equipment and even men back north once they're over the border," Mr. Taylor said.

The analysts said some agreement ensuring allied food, medicine and fuel for the retreating troops might be necessary as a result.



Iraqi prisoners of war sitting in a processing center in Saudi Arabia. They were among more than 400 captured in a raid by U.S. helicopter gunships on Wednesday.

Israel Hints at Attack if Hussein Retains His Might

By Jackson Diehl
Washington Post Service

JERUSALEM — Israel insisted Friday that the government of President Saddam Hussein and its military machine must be destroyed, and expressed approval for the ultimatum to Iraq spelled out by President George Bush.

"It would be very bad for us if Saddam Hussein remained in power in Iraq with a substantial part of his large army still intact," Prime Minister Yitzhak Shamir said.

The prime minister suggested that such a development might lead Israel to abandon its policy of refraining from any attack on Iraqi forces. "If the conditions will change it will change our behavior," Mr. Shamir said. "Our army is ready."

Israeli officials, rejecting the Soviet-Iraqi plan to end the war, argued Friday that Iraq remained a formidable military power and would continue to cause instability in the Middle East if allowed to withdraw its forces from Kuwait.

"The invasion of Kuwait was merely a symptom of a disease," said Deputy Foreign Minister Benjamin Netanyahu. "The disease is the unbridled aggression of a savage regime."

In what appeared as an effort to bolster this argument, Israeli radio quoted "Israeli military experts" as offering a relatively conservative estimate of the damage allied that bombing has inflicted on the Iraqi Army in and near Kuwait. According to the radio account, Iraq retains 2,500 tanks and 1,700 artillery pieces. U.S. officials have estimated that Iraq began the war with about 4,500 tanks and 3,100 artillery pieces.

The radio account also said that "80 percent of the equipment in the more than 130 Iraqi brigades is still intact." It added that not all of Baghdad's fixed Scud missile launchers had been destroyed, and that only a handful of mobile launchers had been hit.

Mr. Netanyahu said that Mr. Hussein "still has his ballistic missiles, many of them, and his chemical weapons." He did not elaborate.

Israeli military officials have been pressing the United States to agree to an Israeli military operation directed at missile sites and infrastructure in western Iraq. The Bush administration has opposed any such action, and Mr. Shamir has so far agreed to hold off.

But officials here have been saying in recent days that if the Iraqi missile threat to Israel was not eliminated by the end of the war, Israel would have cause to take action. Iraq has launched 15 missile attacks on Israel since Jan. 18, firing 35 Scuds that have caused two deaths and damaged several thousand apartments.

Avi Pazner, a senior adviser to Mr. Shamir, said that if the Iraqi Army withdrew from Kuwait, it should be forced to leave its armaments behind. He also said that any agreement to end the war should include controls to ensure that Iraq would not be able to rebuild its military power by buying new weapons from the Soviet Union or other countries.

"We are not concerned whether the means used against Iraq are military or political," Mr. Pazner said. "Our concern is the end result. And if the end result is that at the end of all this war Saddam Hussein remains in power with military means, this will create difficulties."

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On Front Lines, Ups and Downs

By Molly Moore
Washington Post Service

WITH U.S. TROOPS, in Saudi Arabia — The daily roller-coaster of diplomatic efforts to avert a ground war on the Arabian Peninsula have not disrupted Lance Corporal Charles Catterton's nightly ritual.

Each evening before the 20-year-old Marine from Harrisonburg, Virginia, wiggles into his sleeping bag, he lays his gas mask, chemical suit, rifle and boots in an orderly row next to his cot.

"I'm not going to drop my guard," said Corporal Catterton, who drifts into fitful spurts of sleep listening to the rumble of nocturnal B-52 bombing raids just across the Saudi border. "I'm not getting any hopes up."

"I'll believe it when I see it," said a skeptical First Lieutenant Frances Bartholomew, 25, of Reston, Virginia, who works at an air force command post and squeezed into a standing-room-only tent Friday to watch news developments unfold on a television set.

In foxholes and tents across the northern Saudi Arabian desert, U.S. troops have become increasingly disheartened by diplomatic efforts that have left them with a string of false hopes, despair and impatience.

A week ago, when news of President Saddam Hussein's offer to withdraw from Kuwait cracked open hundreds of radios in American campsites, "Everybody got his hopes up," according to Private Kendrick Johnson, 21, of Flint, Michigan. "When he didn't withdraw, everybody got down. My platoon sergeant said: 'You gotta keep your morale up. We got a job to do.'"

"We, probably of all people, are the ones who want the peace to come about," said Major Larry Brough of the air force, a 41-year-old native of Cedar City, Utah, who has been piloting EF-111A electronic warfare planes over Iraq and Kuwait. "We're the ones who have been here for six months. We're the ones who have been going out and flying over Iraq and getting shot at, and we'd certainly like to have it end."

But at the same time, Major Brough and many other officers and troops here want the crisis to end on their terms.

"I'd like to see it end because it would save a lot of our boys on the front lines from casualties," said Staff Sergeant John Kilian of the air force, a 27-year-old from Philadelphia. "Nobody wants to see them in body bags."

Speaking of Mr. Hussein, he added: "On the other hand, if he is attaching all the linkages to the withdrawal where he wants to keep his army intact, then I can't see that. We will just be back here in five years."

Many troops, weary of a long, frustrating wait in the desert, say they are willing to endure the consequences of ground combat to ensure that they and future members of the armed forces do not have to return to this hostile spit of desert.

Iraq's Backers Will Fall, Too, Saudi Asserts

Los Angeles Times Service

WASHINGTON — Dismissing the Palestine Liberation Organization leader, Yasser Arafat, as a "clown" and King Hussein of Jordan as a "gooner," Saudi Arabia's ambassador to the United States vowed that Arab supporters of Iraq would be made to pay dearly for choosing the wrong side.

"Everybody who stood up for Saddam Hussein is going to go under with Saddam Hussein," said Prince Bandar bin Sultan, signaling a break with Saudi Arabia's previous policy of trying to forge a consensus that all Arabs could accept.

Prince Bandar said that Saudi Arabia was prepared to forgive rank-and-file Palestinians for their sympathy toward Mr. Hussein. But Arab leaders who supported Iraq, including Mr. Arafat, King Hussein and President Ali Abdullah Saleh of Yemen, would be held accountable, he said.

Prince Bandar said that the King Hussein was finished as a serious Arab leader. "He was our friend for 40 years, and he sold us out, just like this," he said.

Campus Rallies Against War Mostly Ignored

Washington Post Service

WASHINGTON — College students across the country have held coordinated protests against the Gulf war, but many of the demonstrations were relatively small, even on some campuses known for student activism.

At the University of Michigan, site of the first teach-in on the Vietnam War, about 100 students rallied Thursday against the Gulf fighting. About 250 students at Columbia University, another center of protest in the 1960s, left class Thursday to attend a teach-in. Protest leaders mustered fewer than 200 students from eight campuses in the Boston area for a downtown march and rally. In Washington, anti-war protests also lacked size and intensity.

Student organizers around the country offered various explanations for the small size of the campus protests, including low levels of anti-war sentiment on some campuses, the abundance of previous anti-war protests at others and the looseness of the national student coalition that called for the anti-war actions.

One place where the protests on Thursday did carry emotion was in Amherst, Massachusetts. About 1,000 students from five area colleges rallied on the town common, where Gregory Levey, 30, doused his body with kerosene and burned himself to protest an anti-war protest on Monday.

"All he has done is hurt his allies, since the night of January 16/17 until now, has done nothing more than unleash his ravens to implement a cowardly plan to destroy the properties of Iraq's innocent civilians." The Gulf war started in the early hours of Jan. 17.

Baghdad accused the U.S. and allied troops of lacking the courage to start a ground offensive.

"We do not fear his tyrant forces," the council denounced Mr. Bush for suggesting there was a conflict between President Saddam Hussein's speech on Thursday and Mr. Aziz's stance in Moscow negotiations.

"Tariq Aziz is authorized by his excellency, leader President Saddam Hussein, to commit himself to what he sees fit and to what will be agreed upon with the Soviets regarding their peace initiative."

Accusing the U.S. and allied forces of pursuing bombing raids, Iraq demanded: "Where is the cease-fire agreement?" adding "Did Bush imagine that Iraq would be silent at a time when he launches aggression and rambles in his childish statements?"

Baghdad radio's main news bulletin on Friday evening highlighted an earlier military communiqué that had said the ground war had indeed begun. Allied military spokesmen have denied the charge.

Iraqi radio also gave air time to a commentary that the country's army welcomed a ground war and had prepared "God's burning fire" for their attackers, whose "rotten bodies" would feed the ravens.

Iraq Calls Bush's Deadline 'Shameful'

Compiled by Our Staff From Dispatches

BAHGDAD — Iraq's government on Friday denounced as "shameful" President George Bush's demand that Iraqi forces withdraw from Kuwait in 24 hours, and it appeared to pin its hopes for peace on a Soviet initiative.

The ruling Revolutionary Command Council also said that Iraq was for peace and was working "to support the Soviet initiative and to facilitate its success," according to a statement by an Iraqi official.

The council denied that Iraq was setting fire to oil wells in Kuwait as part of a "scorched earth" policy that Mr. Bush and the U.S. military said had begun.

The council called for the establishment of a UN Security Council committee, including the Soviets, the Chinese and other noncoalition members to assess the degree of destruction in Kuwait and Iraq.

The statement was not a point-by-point response to Mr. Bush's demand that Iraq declare it was willing to withdraw from Kuwait on Saturday by 8 P.M. Iraqi time.

Nor did the spokesman for the Ministry of Information who read the Revolutionary Command Council statement discuss the contents of a Soviet peace proposal agreed to Friday by Iraq's foreign minister, Tariq Aziz, in Moscow.

"We don't know if Bush wanted from this disgraceful ultimatum to give the illusion that the peace initiative was due to his ultimatums or that he wanted to give the illusion to the world that he and his failing allies had defeated Iraq," the Revolutionary Command Council said, referring to the Soviet proposal.

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It was not clear whether the "fire" was a rhetorical reference, but it coincided with allied charges that Iraq had adopted a scorched-earth policy in Kuwait, setting more than 140 oil wells on fire.

"O sons of dignity and glory, O sons of Iraq, O honorable people, O sons of our glorious Arab nation: The despicable ones wanted it; they wanted it, and they have planned for it," the radio said in a commentary broadcast before Mr. Bush's announcement and monitored by the BBC.

"The ground attack has begun, despite all the international initiatives," the radio said, adding that "the sons of Iraq have prepared for them what they deserve — God's burning fire that will devour the evil and the despicable traitors who have sold themselves cheaply to the foreigner."

"They wanted a ground war. The soldiers of Iraq, the soldiers of God and the people, welcome it with hearts full of faith in God, under the banner of God is Great, and in the soil of this dear homeland."

The soldiers of leader Saddam Hussein were ready for this battle, the Mother of Battles, as they have been in all the glorious battles of history."

Allied bombing raids on the southern city of Basra have provoked epidemics there, refugees reaching Iran said. They said 60 percent of Basra's two million residents had fled.

The Iranian press agency, IRNA, reporting from the Iranian frontier town of Ahwaz, east of Basra, quoted refugees as saying that contaminated water had caused an outbreak of diarrhea and other diseases.

Basra, Iraq's second-biggest city and a large garrison, has been the target of daily allied raids since the Gulf war began. (AP, Reuters)

HARRY WINSTON

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WAR IN THE GULF: 'The time has come,' Bush said, 'to make public with specificity just exactly what is required of Iraq'



Egyptian soldiers taking a break from stacking sandbags at new positions along the northern border of Saudi Arabia.

ULTIMATUM: U.S. Momentum

(Continued from page 1)

himself from the talks. Playing down an earlier Soviet claim Friday after midnight to have brought Iraq past "a watershed" in the direction of a solution, officials in Moscow acknowledged Friday — after the coalition's ultimatum — that the Iraqi-Soviet understandings never amounted to a peace plan.

The final public Iraqi offer was designed to extricate Iraq from Kuwait on terms that allied officials feared would give Mr. Hussein a political victory.

In contrast, the U.S. terms for sparing Iraq's forces in Kuwait

Ultimatum to Test Iraq's Intentions, Soviet Aide Says

Reuters

MOSCOW — Sergei Grigoriev, a deputy spokesman for President Mikhail S. Gorbachev, said Friday that the U.S. demand that Iraq start withdrawing from Kuwait on Saturday might be too harsh and the time given too short. He added, however, that a war would be Iraq's fault.

"On the other hand, this might help," he said in a television interview. "This will be kind of a litmus paper, a test, for Saddam Hussein, whether he is really determined" to withdraw from Kuwait.

Mr. Grigoriev said in another interview that Iraq might be using the talks as a delaying tactic, noting that sandstorms and the coming Muslim holy month of Ramadan could complicate an allied ground attack.

"We all know that it's getting harder and harder to trust Saddam Hussein, and that is why probably this is some kind of a litmus test for Mr. Hussein's commitments," he said.

"If he will start a withdrawal, then he is really dedicated to the idea of peace," Mr. Grigoriev added. "If this deadline means nothing to him, then it will just accelerate the beginning of the land operation." He said that Mr. Bush's demands put President Hussein "in a bit of a humiliating position."

SCORCH: U.S. Accuses the Iraqis of Destroying Kuwaiti Oil Facilities

(Continued from page 1)

the oil-producing capabilities of Kuwait," he added.

The general said pilots had noticed much more smoke from Kuwait's oil fields in the previous 24 hours and after investigating had identified more than 140 wells that were burning.

"I can't give you a definitive answer whether that includes the 40 to 50 wells which were burning on a routine basis," General Neal said.

"It does show at least 100 have been exploded, torched, in the last 24 hours, and the facilities associated with them are being systematically destroyed," he said.

Admiral McConnell said the smoke would make it more difficult for allied pilots to find their targets. He also said that the oil gave off hydrogen sulphide gas, a flammable, poisonous gas that can be fatal in high concentrations.

Lieutenant General Thomas W. Kelly, director of operations of the Joint Chiefs, said that although "some work-arounds" might have to be made because of the smoke, "we don't see anything we don't think we can work through."

PLAN: Iraq Accepts Proposal by Soviets for 21-Day Pullout From Kuwait

(Continued from page 1)

said that Mr. Aziz had been authorized to negotiate on its behalf in Moscow and expressed support for the Soviet initiative.

Soviet and Western analysts said that Mr. Gorbachev's decision to broker his own peace plan could complicate U.S.-Soviet relations, particularly in the event of an allied ground offensive. Comments by Soviet officials Friday suggest that the Kremlin would almost certainly condemn such an offensive, creating the first serious rift in the anti-Iraq coalition created after the Aug. 2 invasion of Kuwait.

Mr. Gorbachev's chief Middle

East envoy, Yevgeni N. Primakov,

called the Soviet-Iraqi plan a major success in the eyes of the world and warned the Bush administration against rejecting it. "If at this moment, it is broken down by war, then the responsibility will rest with those who start the war," he said.

A Foreign Ministry spokesman, Vitali I. Churkin, also appealed to the multinational coalition not to begin a ground offensive, saying that it would greatly complicate attempts to end the conflict.

"We are very concerned because we feel that land hostilities are not some kind of computer wargame. Setting fire to the wells was the second act of environmental destruction imposed to the Iraqis by the allies, who said Mr. Hussein's forces released millions of gallons of crude oil into the Gulf last month. According to allied spokesmen, U.S. planes bombed controls at an offshore Kuwaiti oil terminal to stanch the torrent of crude gushing into the Gulf. Iraq, however, said the oil spill was caused by allied planes hitting two loaded tankers.

The allies first accused Iraq on Jan. 22 of setting fire to oil wells in the giant Wafra field in southern Kuwait, and storage tanks at Shuaiba and Mina Abdullah, just south of Kuwait City.

Since then, up to 50 oil-field fires have flared at any one time. Allied officials have said they did not know if Iraq was carrying out its threat to set the fields on fire, or was torching some wells as a tactical maneuver to hinder allied air strikes.

What General Neal said was a dramatic increase in the number of fires in the previous 24 hours, however, prompted the fear that Iraq

was now carrying out its original

threat to destroy all of Kuwait's

production and refining facilities.

General Neal said he was not sure that allied aircraft could put out the fires by bombing the well-heads, and added, "We are not doing anything right at the moment to put out the fires."

He said the level of damage was about as bad as could be expected.

He said he was not aware of any other actions the Iraqis might be taking to destroy Kuwait. There have been reports that Iraq has mined every street in Kuwait City in preparation for house-to-house fighting.

"The prudent forces who go in will have to be very careful," General Neal said.

Before the war, Kuwait had one of the biggest production, refining and loading facilities in the Middle East, and the cost of repairing destroyed facilities could run into the tens of billions of dollars. Officials said Kuwaiti specialists were seeking help from the companies that built the oil and gas plants in order to rebuild and restart them once the Iraqi forces are gone.

They can shake the international system so much that neither side would feel any gratification from the fact that these hostilities have broken out," he said at a news conference.

The presidential spokesman, Vitali Ignatenko, played down speculation about a split in the anti-Iraq coalition, saying that the Soviet Union and the United States had "acted in harmony with each other" since the start of the crisis.

Mr. Ignatenko's deputy, Sergei Grigoriev, said in a British television interview that the Kremlin was taking care to keep in close touch with Washington even while it was

negotiating with Baghdad. He said that the fact that Mr. Gorbachev had a very long telephone conversation with Mr. Bush immediately after meeting with Mr. Aziz was evidence of "quite a high level of political contact between Moscow and Washington."

Describing Mr. Gorbachev's telephone conversation with Mr. Bush on Friday evening, Tass said that the Soviet president had "listened attentively" to the leader of a country that was bearing the brunt of the war. The report painted a picture of the two leaders working closely together to ensure Iraqi compliance with Security Council resolutions.

Arson Fires In Germany Linked to War Protest

Reuters

FRANKFURT — Arson attacks against three Frankfurt department stores this week were intended to protest Western involvement in the Gulf war, according to an unsigned letter to a newspaper here.

At the same time, the leader of a Jordan-based Palestinian fundamentalist group was quoted as saying the U.S. military airport at Frankfurt was "a target in our attacks."

Sheikh Assad Tamimi, leader of the group, the Islamic Jihad, made the comment in the daily Frankfurt Allgemeine Zeitung.

The police said it was too early to say whether two overnight fires Friday at hotels in Berlin and Dresden were coordinated or linked to other arson attacks in Germany.

In Dresden, a man died at the Dresden Hof after a masked man started a fire in the hotel's night club. Other guests escaped the blaze. A fire that the police said was also an arson attack gutted the parking garage at the Palast Hotel in east Berlin.

WAR: Napalm Is Used

(Continued from page 1)

only on oil trenches. "It is not being used on personnel," he said.

Allied officials said about 100 Iraqi troops surrendered when an F-18D jet on an observation mission swooped low over their position.

"They all stood up and were taken prisoner. It looks like they were looking for an excuse," said Brigadier General Richard L. Neal of the U.S. Marines.

Baghdad radio said coalition forces carried out a land assault following a preparatory bombardment.

"This unequivocally means that the enemy has started the ground battle," the radio said. "Yes, the ground battle has begun in view of the size of the enemy offensive, the goals he seeks to achieve and the course of the battle."

"If the Iraqis are leaping to the conclusion that the ground battle has begun on the basis of a single division shooting artillery fire, then they really don't comprehend the strength of the firepower of the coalition," a Pentagon official said, according to The Associated Press.

The official said the start of a ground invasion would be marked by "an overwhelming surge of firepower."

The French defense minister, Pierre Joxe, said in Paris that the allies have decided to launch a ground offensive within hours if Iraq ignores the deadline Saturday.

"The start of land operations is now programmed," he said.

Despite the peace feelers in Moscow, allied forces continued to batter Iraqi positions to "prepare the battlefield," officials said. "We are going to continue operations until we have achieved our objectives," General Neal said.

Reports from the front spoke of massive artillery and rocket barrages as helicopter gunships swooped overhead to hammer Iraqi positions. Group Captain Niail Irving of Britain said British forces fired 156 rockets and 450 shells across the frontier as part of a coordinated bombardment by coalition forces. He said allied planes also fired Iraqi positions that opened fire in response.

Saudi Arabian forces penetrated about 10 kilometers into enemy territory and cleared a 60-meter (200-foot) wide path through a minefield, defusing and bringing back 75 of the hundreds of thousands of mines that Iraqi forces were reported to have planted along the border.

Announcing the action, a Saudi Arabian spokesman, Colonel Ahmed Robayan, said there were no immediate indications any of the mines contained chemical agents.

In a series of clashes along the frontier late Thursday and early Friday, one U.S. Marine was reported killed and five wounded as a result of Iraqi artillery fire.

General Neal said the Marines knocked out 18 tanks, 15 armored personnel carriers and trucks and took 10 prisoners in the clashes.

He said allied aircraft flew 2,700 missions, bringing to about 91,000 the total number of sorties since the war began.

The Iraqis fired another Scud missile toward Saudi Arabia Friday but it broke in two over the Gulf, allied officials said.

In Washington, Lieutenant General Thomas W. Kelly, director of operations of the Joint Chiefs of Staff, said three Scud missiles fired at northern Saudi Arabia on Thursday all were fired from within the city limits of Baghdad. He said this was a further example of the Iraqis using civilians to shield military activities.

So far in the war, he said, Iraq has fired 72 Scuds, 37 toward Saudi Arabia and 35 toward Israel.

Iraq also said it fired three Scuds at Bahrain early Friday.

to the Gulf, allied warships shelled coastal targets in preparation for a possible amphibious landing, allied officials said.

Major General Harry Jenkins, the commander of 17,000 Marines in a 30-ship amphibious force, said he considered the prospects for an amphibious invasion greater than at the outset of the war.

Text of Statement by Bush

The Associated Press

Following is a transcript of remarks by President George Bush at the White House on Friday regarding the Soviet peace initiative:

The United States and its coalition allies are committed to enforcing the United Nations resolutions that call for Saddam Hussein to immediately and unconditionally leave Kuwait. In view of the Soviet initiative, which very frankly we appreciate, we want to set forth this morning the specific criteria that will ensure Saddam Hussein complies with the United Nations mandate.

Within the last 24 hours alone, we have heard a defiant uncompromising address by Saddam Hussein, followed less than 10 hours later by a statement in Moscow that, on the face of it, appears more reasonable.

I say "on the face of it," because the statement promised unconditional Iraqi withdrawal from Kuwait, only to set forth a number of conditions. And needless to

say, any conditions would be unacceptable to the international coalition and would not be in compliance with the United Nations Security Council Resolution 660's demand for immediate and unconditional withdrawal.

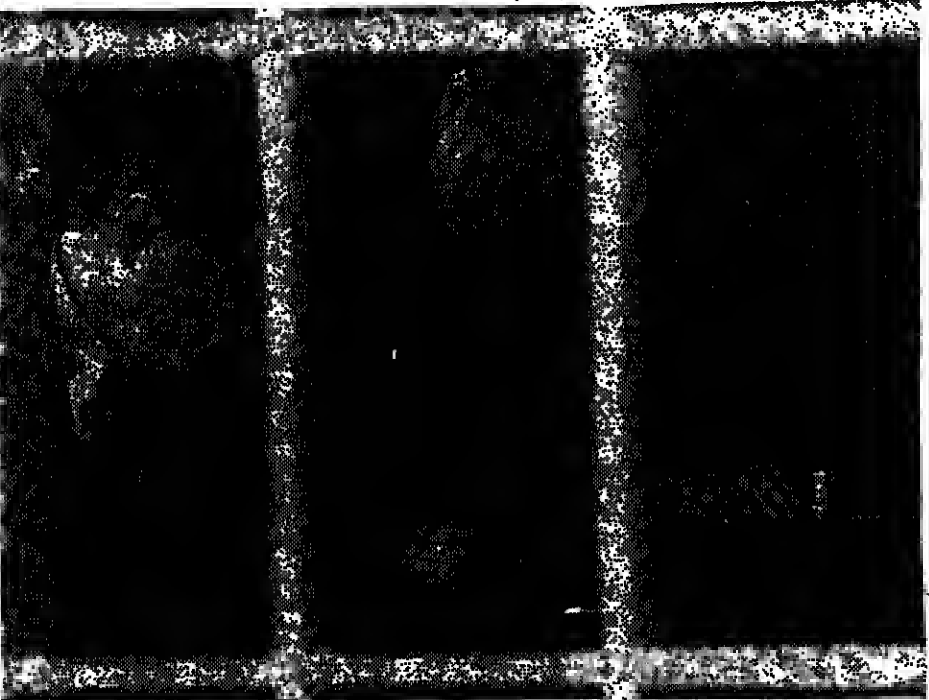
'We must hear publicly and authoritatively his acceptance of these terms.'

More importantly and more urgently, we learned this morning that Saddam has now launched a scorched-earth policy against Kuwait, anticipating perhaps that he will now be forced to leave. He is wantonly setting fires to and destroying the oil wells, the oil tanks, the export terminals, and other installations of that small country. Indeed, they are destroying the entire oil production system of Kuwait. And at the same time that that

Moscow press conference was going on and Iraq's foreign minister was talking peace, Saddam Hussein was launching Scud missiles.

After examining the Moscow statement and discussing it with my senior advisers here last evening and this morning and after extensive consultation with our coalition partners, I have decided that the time has come to make public with specificity just exactly what is required of Iraq if a ground war is to be avoided.

Most important, the coalition will give Saddam Hussein until noon Saturday to do what he must do, begin his immediate and unconditional withdrawal from Kuwait. We must hear publicly and authoritatively his acceptance of these terms. The statement to be released, as you will see, does just this, and informs Saddam Hussein that he risks subjecting the Iraqi people to further hardship unless the Iraqi government complies fully with the terms of the statement.



George Bush, seen through an Oval Office window, Friday with Secretary of State Baker.

24 Hours of Whirlwind Diplomacy

Reuters

Diplomatic developments unfolded in rapid succession Friday as the key players in the Gulf crisis tried to shape the political outcome of the Gulf war in light of a Soviet peace initiative.

Late Thursday, President Saddam Hussein in Iraq addressed his country in radio broadcast that promised further armed defiance, but did not exclude a negotiated settlement.

Following is a chronology of subsequent events. The approximate times are expressed in GMT.

2320: Vitali Ignatenko, spokesman for President Mikhail S. Gorbachev, announces in Moscow that, after 2 hours 20 minutes of meetings, Foreign Minister Tariq Aziz of Iraq has given a "positive response" to a Soviet peace proposal containing eight points. Mr. Ignatenko says the plan calls for an "unconditional" Iraqi withdrawal from Kuwait, but other points appear to set conditions for a pullout.

Mr. Gorbachev calls President George Bush in Washington to inform him of the new development.

0145: Martin Fitzwater, the White House spokesman, expresses "serious concern" about elements of the Soviet plan and says the allies will "continue to prosecute the war." President Bush confers with his advisers and senior administration officials begin consultations with the allies, lasting through the night.

0440: Joe Clark, Canadian external affairs minister, calls the Soviet peace plan "promising," but says more negotiations are needed.

0715: Japan says it is unlikely to give aid to Iraq after the war if Mr. Hussein remains in power.

0820: The Soviet foreign minister, Alexander A. Bessmertnykh, and Mr. Aziz begin a new round of meetings in Moscow on a possible timetable for Iraqi withdrawal from Kuwait.

0830: Allied planes carry out daylight raids on Baghdad for the first time in nearly two weeks.

0940: Yevgeni M. Primakov, Mr. Gorbachev's special Middle East envoy, says the allies will be to blame for scuttling peace hopes if they launch a ground war.

1000: A spokesman for Mr. Gorbachev tells Israel that Moscow wants to see Iraq disarm.

1005: Prime Minister John Major of Britain says there is no reason to halt the war until there is "compliance with UN resolutions."

1015: Germany says Iraq's response to the Soviet plan is too unclear to be acceptable.

1035: A Soviet spokesman says that details of the plan still must be worked out, and that it is important to avoid a ground war.

1050: Iraq says the allies have launched "the ground battle" across the Saudi-Kuwait border.

1110: A U.S. military official denies the Iraqi report.

1110: France says it is time for Mr. Hussein to stop "playing tricks" and take the last steps to end the war.

1215: The Soviet press agency Tass says the Soviet Union and Iraq have agreed on the basic terms of a peace plan and are submitting it to the United Nations.

1230: Prime Minister Yitzhak Shamir of Israel says the Soviet peace plan would leave Iraqi forces intact and only postpone an inevitable military showdown.

1910: Mr. Ignatenko announces a new six-point plan that he says Mr. Aziz has accepted, including an Iraqi promise to start leaving Kuwait after a cease-fire takes effect. Most earlier conditions have been dropped, leaving most notably a commitment to lift UN sanctions once a pullout from Kuwait is completed. The timetable for withdrawal is to span 21 days. Mr. Ignatenko makes no mention of Mr. Bush's earlier statement.



Tariq Aziz with Mikhail S. Gorbachev in Moscow early Friday shortly before their meeting to discuss the peace plan.

6 Points of New Soviet-Iraqi Peace Plan

Reuters

Following is the text of a six-point Soviet peace plan for the Gulf that was agreed to in Moscow on Friday afternoon by Foreign Minister Tariq Aziz of Iraq:

1. Iraq agrees to carry out resolution 660 of the United Nations Security Council, that is, to withdraw its forces immediately and unconditionally from Kuwait.

wait to positions they occupied on Aug. 1, 1990.

2. The troop withdrawal will start the day after a cease-fire encompassing all military operations on land, sea and in the air.

3. The troop withdrawal will be completed within 21 days, including a pullout from Kuwait City within the first four days.

4. Once the withdrawal has been completed, all UN Security Council resolutions will no longer

be valid because the reasons for them will have been removed.

5. All prisoners of war will be freed and repatriated within three days after a cease-fire and the end of military operations.

6. Control and monitoring of the cease-fire and withdrawal of troops will be carried out by observers or peacekeeping forces as determined by the Security Council.

البيان

WAR IN THE GULF: For allied airmen, newly disclosed concerns about unguided — and misguided — munitions

U.S. Officer Dismissed After Attack Kills 2 GIs

By Molly Moore
Washington Post Service
DHAHRAN, Saudi Arabia — The commander of a U.S. Army Apache helicopter battalion was relieved of his command this week after he mistakenly fired on two American soldiers during a Hellfire missile attack on an Iraqi convoy, according to news pool reports.

The officer, Lieutenant Colonel Ralph Hayles of Corpus Christi, Texas, was reportedly dismissed as a result of the attack and because he violated orders that bar commanding officers from personally engaging Iraqi forces.

Two infantrymen were killed and six wounded during the battle, in which U.S. Apache helicopters fired at least 100 laser-guided Hellfire missiles at a group of trucks, observation posts and scattered infantrymen, army officials said.

The decision to use expensive, lethal Hellfires for this attack also stirred a serious controversy within the U.S. Central Command. General H. Norman Schwarzkopf, chief of allied forces, was reported to be outraged that the Apache pilots had used these powerful weapons against such lightly armed targets, according to division officials. The Hellfire was designed to attack heavy armored vehicles.

General Schwarzkopf, in a stern message, described the raid as an example of excessive use of firepower, according to Colonel James Riley of the 1st Armored Division, a recipient of the message, which was sent throughout the army.

After the attack, which occurred Feb. 17, General Schwarzkopf issued a document reinforcing his orders that military officers not squander their most lethal tank-killing ammunition on second-tier Iraqi forces like trucks.

The high-technology Hellfire missiles cost about \$50,000 each, and few Apache pilots had been permitted to test-fire them in training before the war. The barrage of Hellfires launched in the border assault cost at least \$5 million.



A team of U.S. Air Force workers transporting a 2,000-pound bomb for loading under the wing of an F-16 fighter jet at an air base in Saudi Arabia.

Half of Some Bombs Missed Targets, Officials Say

By R. Jeffrey Smith and Evelyn Richards
Washington Post Service

WASHINGTON — Preliminary estimates of the accuracy of U.S. bombs dropped on military targets in Iraq and Kuwait suggest that hundreds of precision-guided munitions, as well as thousands of "dumb" bombs, have missed their targets and in some cases struck unintended sites, according to U.S. officials.

These accidents involved a minority of the tens of thousands of bombs that have been dropped in allied air operations that have achieved an overall level of accuracy in the Gulf war that exceeds the Pentagon's expectations and the record of previous wars. But U.S. officials so far only have disclosed anecdotal evidence of perfect bomb strikes.

A total of 110 million to 120 million pounds (50 million to 55 million kilograms) of explosives

has been dropped on targets in Iraq and Kuwait during the past five weeks, a senior Pentagon official said — an amount that may equal approximately 150,000 individual weapons, according to several experts familiar with the U.S. munitions being used.

Estimated bombing accuracy rates in the Gulf war have been as high as 95 percent for the most advanced types of guided munitions but lower than 50 percent for many unguided munitions, several officials said. Given the furious pace of combat in the Gulf, even the relatively high success rates mean many failures, the officials said.

British officials this week highlighted the occasional tendency of so-called smart bombs to go astray when they disclosed that a laser-guided bomb had missed its target last week and struck a populated area in the Iraqi town of Fallujah.

In contrast, U.S. military officials — over the objections of senior air force officials — have suppressed a film showing a U.S. smart bomb accidentally striking a civilian building in central Baghdad, across from the Interior Ministry.

Several Pentagon officials said unguided munitions frequently have missed such military targets as bridges or protective embankments, a circumstance that delayed successful prosecution of the air war against Republican Guard forces near the Iraqi-Kuwait border.

Independent analysts also said that the allied coalition has been using several types of munitions with poor accuracy records in past conflicts and poor operational test results, including at least one type of guided bomb found to be so inaccurate that its production was halted abruptly six years ago.

Although the Pentagon has declined to release a detailed tally of the munitions used to date, several officials said the smart bombs featured in the videotapes that have been shown during military briefings represent only 5 to 10 percent of the total. The rest have been simple steel-cased explosives — including some with designs dating from World War II — that follow unguided trajectories to their targets, usually hitting within 50 to 100 feet (15 to 30 meters) but sometimes missing by much greater distances.

A potentially wide margin of error in allied bombing was illustrated Monday when U.S. military officials in Washington, seeking to rebut Iraqi claims that a bomb had struck a mosque in Basra, said that while the bomb had missed the mosque, it fell a half-mile (about 1 kilometer) from the military command center it was supposed to hit.

A senior U.S. military official in Washington who has seen still and video pictures of damage from inaccurate bombing said that more bombs have missed their targets in Iraq and Kuwait than political leaders have wanted to admit. But he said it may not be until after the war that a comprehensive estimate of weapons' accuracy can be drawn from a detailed inventory of munitions used in the fighting and associated bomb damage.

When asked recently about damage to civilian areas, Marlin Fitzwater, the White House spokesman, said, "The state of our technology has led people to believe sometimes that we have abilities to detect things or to avoid targets, or whatever, that we don't always have."

But, he said, U.S. forces were better able now to limit civilian casualties "than we've ever been in the past."

Saudis Court Exiles To Replace Hussein

By Elaine Sciolino
New York Times Service

WASHINGTON — Saudi Arabia, with the apparent acquiescence of the United States, has been quietly assembling former Iraqi political and military officials to form a potential government in exile that could fill a power vacuum in Baghdad if President Saddam Hussein of Iraq were deposed, according to diplomatic sources and Iraqi exiles.

Saudi officials have scoured Egypt, the United States, Britain and Syria to pull together a loose, somewhat disparate group of about 30 Iraqi exiles who the Saudis hope will form the basis of a postwar government in Iraq that would be friendly to the rich Gulf states, the diplomats and exiles said.

Saudi Arabia is eager both to see the overthrow of Mr. Hussein and to have a voice in shaping the political future of Iraq.

But Mr. Hussein has so thoroughly brutalized his Iraqi opponents over the years that experts on Iraq both inside and outside the Bush administration do not believe that any such exile movement has a possibility of success, at least not at this point.

"None of these opposition people have much of a chance," said an administration official who follows Iraq but was unaware of the Saudi initiative. "How are they going to get into Iraq? And who is going to support them? They're divided, ethnically and politically. It strikes me as utter, sheer naivete."

It is unclear whether the Bush administration is encouraging and cooperating with Saudi Arabia to try to assemble Iraqi exiles in Riyadh or simply allowing them to do what it thinks is best. A senior administration official, when asked about the subject, declined comment, citing its sensitivity.

Another senior administration official said: "I'm not aware that we are encouraging them."

coalition in part to prevent a group of Iraqi Shiite dissidents living in Iran from gaining influence in the postwar era, Iraqi exiles said.

Since the early 1980s, Iran has been host to Ayatollah Mohammad Bakir Hakeim, an Iraqi Shiite who heads an Iraqi government in exile based in Tehran.

The Iranian-based group has vowed to establish an Iranian-style Islamic republic in Iraq, although since the death of Ayatollah Ruhollah Khomeini, the group has lost much of its influence.

One of the important members in the Saudi group is Talib Shabib, a former senior Ba'ath Party leader who left Iraq in the mid-1960s, and is now in Riyadh, the diplomats said, although other Iraqi exile leaders said that Mr. Shabib was not part of any government-in-exile movement.

Mr. Shabib, who was the foreign minister of Iraq for a brief period in 1963 when the Ba'ath Party seized power, later turned against President Hussein. A Westernized liberal, he has lived in New York for many years.

One of the important military figures is Hassan Naqib, a former Iraqi general who is close to President Hafez Assad of Syria and is regarded in many ways as more radical than Mr. Hussein.

General Naqib was commander of the Iraqi Army in Jordan in the late 1960s and 1970.

Mr. Hussein removed him from his command because he wanted Iraqi troops to fight on the side of the Palestinians against Jordan, according to Amataz Baram, an Israeli scholar on Iraq. "He was a nasty general," said Mr. Baram, reached by phone in Tel Aviv, "even too nasty for Saddam."

Ahmed Chalabi, another Iraqi opposition figure, said he believed that, while Saudi Arabia had been host to various opposition groups, there was nothing resembling a government in exile in Riyadh.

"It's exaggerated; there's no such thing," he said when reached by phone from London.

Independent scholars on Iraq said that it would be extraordinarily difficult for any outside group to take power in Iraq unless there was a collapse of the institutions built by Mr. Hussein.

Even if Mr. Hussein were overthrown, they said, the military, the Ba'ath Party, the network of intelligence services, or the Shiite mosque network could provide a structure of organization for a future government.

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INTERNATIONAL Herald Tribune

Published With The New York Times and The Washington Post

For Saddam, Tailor-Made

Saddam Hussein's much-awaited speech was hollow and defiant. But hours later in Moscow, a smiling Soviet spokesman announced a "positive" result to the latest Soviet-Iraqi consultations. The new position seems a precise blending of two things: 1) Saddam Hussein's hope to use Mikhail Gorbachev's and the Soviet Union's emerging ambitions in order to draw out a negotiating process that will let him stay in power, well armed and available for further adventures, and 2) Mikhail Gorbachev's hope to enmesh the Soviet Union as the broker of a Gulf peace and perhaps also to revive his own prestige. This new position is remote from the stated goals of the United States and the allied coalition it leads.

Under the Iraqi-Soviet package, Iraq would leave Kuwait, but on an unspecified "fixed term" and apparently with full weaponry. So much for the American demand that Iraq leave on a quick schedule inconsistent with taking out the equipment that would leave it a regional menace. Economic sanctions would be ended automatically after just two thirds of the forces were out; all remaining UN resolutions, including evidently the key one (678) that authorizes the UN "to restore international peace and security in the area," would be voided after all the forces were out. So much here for the intent of almost all members of the military coalition to use the UN statements to reduce Iraq's armed might and potential and to bring a new stability to the Gulf as a

whole. This was being described as "unconditional withdrawal."

Iraq and the Soviet Union hope to involve the United Nations as early as today in consultations on these issues. That is bound to complicate any American decision to continue applying and even to increase military pressure in order to win withdrawal terms closer to the international standard. What needs most to be kept in mind, however, is that the allied coalition did not come all this way in order to establish in Iraq, with Saddam Hussein or with some other Iraqi leader, a potentially revitalized regional threat. It is the coalition that must have the first voice in determining what needs to be done "to restore international peace and security in the area."

Of the Soviet Union it can be said that, using its diplomatic tools, it did what it could to end Iraqi aggression against Kuwait.

But the American-led coalition has in addition military tools, and a strong UN mandate to employ them, and plenty of good strategic and political reason as well. It is not only Moscow, which is trying to cultivate its favor, that Saddam Hussein must satisfy, but the coalition, which has a broader, more legitimate and less self-interested purpose.

The war in the Gulf will properly be over when Iraq meets the United Nations' originally stated, reasonable terms.

—THE WASHINGTON POST.

Let Puerto Rico Vote

How perverse it would be if American politicians who uphold Mikhail Gorbachev for ignoring Lithuania's independence plebiscite were to refuse Puerto Rico the same right of expression.

But that's exactly what seems to be happening in the U.S. Senate.

Discovered by Columbus, colonized by Spain, seized as war booty by the United States, Puerto Rico qualifies as the oldest colony in this Hemisphere.

Like the Baltic states, it was involuntarily annexed by a big neighbor.

But unlike the Baltics, most Puerto Ricans favor continued association with their distant overlords, as the 51st state or as a partly autonomous commonwealth.

In a world boiling with ethnic discord, Puerto Rico is enviably free of rage and persistent violence.

Yet Puerto Ricans are justly furious at Washington's unwillingness to provide a free and fair referendum this year in which Puerto Ricans could finally determine whether to seek statehood, choose continued commonwealth autonomy, as a minority wishes, become independent.

If there is to be a plebiscite in 1991, Congress must act by early July.

Chairman J. Bennett Johnston of the Senate Energy Committee, vowing to meet that deadline, has already held hearings on legislation that would carefully define the choices.

This is very different from a House bill that simply lists the options, without elaboration, inviting angry misunderstandings.

But Mr. Johnston's draft bill may well be killed by lawmakers who like self-determination — in the Baltics.

After all, says Don Nickles, an Oklahoma Republican, Puerto Ricans might not "blend" with the U.S. if they chose statehood. Exactly, says Wendell Ford, a Kentucky Democrat, who describes Puerto

Rico as that sinister thing, a "separate culture."

Malcolm Wallop, Republican of Wyoming, is all for letting Puerto Ricans hold a referendum as long as Congress can ignore the results.

These are wounding arguments. Cultural, ethnic and religious differences were once cited by bigots who opposed statehood for Hawaii, New Mexico, Arizona, Utah and Oklahoma.

Nobody spoke of a "separate culture" when Puerto Ricans were drafted to fight in past wars. Nobody says the 15,000 Puerto Ricans serving in the Persian Gulf now do not "blend in."

Finally, it verges on the dishonorable to invite Puerto Ricans to hold a referendum without assurance that Congress will heed the results — especially so when the invitation comes from Mr. Wallop, whose president and party favor statehood.

Every president starting with Dwight D. Eisenhower has affirmed Puerto Rico's right to choose.

That commitment was repeated time and again in the United Nations.

New York's Senator Daniel P. Moynihan recalls that it was once his job as U.S. envoy to ridicule Fidel Castro's claim that Americans would never allow Puerto Ricans freedom of choice.

Charting Puerto Rico's future will require hard legislative work and much good will.

But Puerto Ricans did not ask to be annexed.

They were compelled to become part of the United States by a process far less brutal but very like the Soviet absorption of the Baltics.

It is both honorable and politically wise to permit this captive nation to decide its status freely, fairly — and promptly.

—THE NEW YORK TIMES.

Other Comment

Saddam's Raving Speech

The door to a peaceful solution is closed for good. Saddam Hussein pushed it shut with a raving speech characterized by a spiteful will to survive, saber-rattling and the repetition of well-known accusations. It appears that the tyrant of Baghdad desires to provoke the doom of his regime, as if he had decided to die in an explosion of fire and blood in his bunker.

Nothing stands in George Bush's way now to give the command for a ground attack by his troops in Saudi Arabia.

—the Süddeutsche Zeitung (Munich)

Most Iraqi opposition circles, mainly in Iraq, Syria, Britain and European countries and America believe that if Saddam Hussein remained in power in the aftermath of the Gulf war, he would most likely become like an injured tiger in a frenzied state and would direct his rage against his people and his neighbors.

It is known that there are two main centers where the Iraqi opposition forces are being assembled, aside from the dispersed centers in Europe and America, and these are Tehran and Damascus.

There are fears of the eruption of a civil war in Iraq if Iraq pushed armed elements inside Iraq in case the political regime in Baghdad became shaky or if the allied forces entered Iraqi territories. It is known that Iraq has two detachments ready to operate at any time and that there is another detachment being set up now. The first detachment is the detachment of the republicans and made up of Iraqi prisoners of war who refuse to go back to Iraq after the war and the Badr detachment grouping Shites and those kicked out of Iraq into Iran.

It becomes evident therefore that there are active efforts exerted among the Iraqi

opposition ranks to set up an Iraqi political system to substitute the current regime and that Tehran, Damascus, Riyadh and Cairo are playing a major role in these efforts.

One of the two most likely possibilities is that if Iraq survived the ground war massacre, then its political regime would remain for a short period of time trying to picture itself through its media as being the victor on one side that has confronted the forces of 28 countries but has responded positively to the mediation of the Soviet friend to withdrawing from Kuwait in order not to let America, the great devil, seize the opportunity of destroying Iraq's army which would liberate Jerusalem later when the better chance comes up.

—Al-Ahram (Cairo).

The Laurels Can't Be Rushed

Saddam needed a fight to establish in Arab countries and throughout the Third World his image of a fighter during the most powerful world state. One must admit that to a certain extent he succeeded. Right before our eyes a fantastic substitution of concepts is taking place. He who treacherously attacked a neighboring country looks like a victim of aggression. Probably the combination of the two factors — an understanding that defeat is inevitable while his personal prestige is stable — induced Saddam to come out with his "proposal."

For the Soviet leadership the end of the war is important at least because the world would assess it as the result of peacemaking activities of Moscow.

But our mediatory mission will bring us laurels only when it becomes clear that Baghdad is not playing for time, but agrees to a withdrawal without any counterclaims.

—The political scientist Georgi Mirsky writing in the Moscow News (Moscow)

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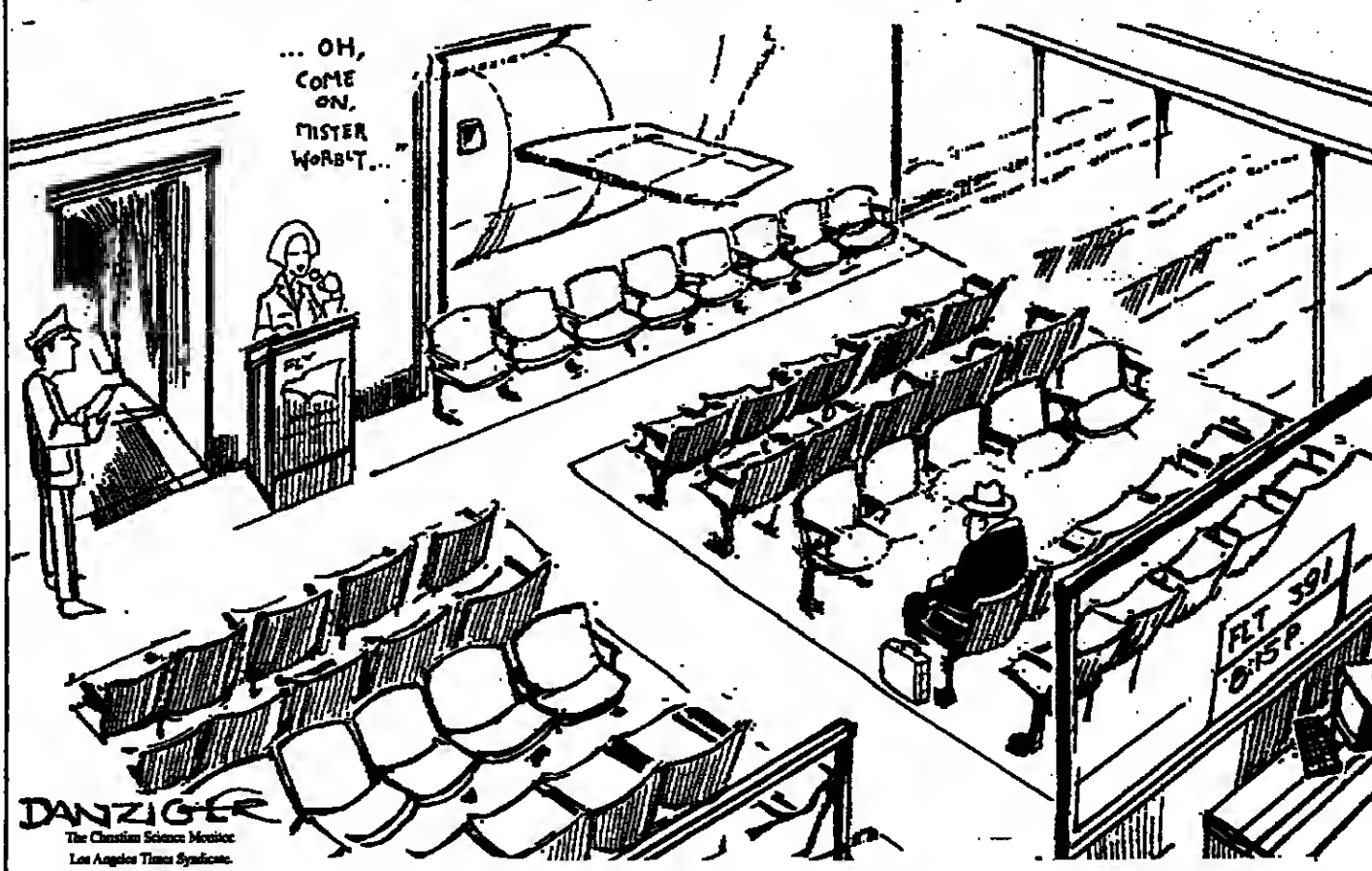
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OPINION

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Countdown: Iraq Should Not Get Choice of Options

By Jim Hoagland

LONDON — Iraq's latest, trapped peace proposal invited but one immediate response from America and its coalition allies: to fight and talk.

The political and military terms for a cease-fire are not yet present. But they can be created soon if the anti-Saddam Hussein coalition pursues this double-edged strategy.

In operational terms, the coalition should continue the creeping expansion of the ground offensive into Kuwait that it denies is under way. An all-out ground war that President Bush threatened Friday should be held in reserve for the moment and the air war refocused tightly on targets in or near the Kuwaiti theater.

At the same time, the allies should continue to emphasize their willingness to cooperate with any other power, including the Soviet Union, to get Iraq to accept the terms the United Nations has laid down for ending the fighting. The talking has to ensure that those goals are not compromised and that Iraq does not gain an undesired aura as being more interested in peace than the coalition.

This is in essence the near-term strategy that has been adopted here at No. 10 Downing Street, in the White House and at the Elysee Palace before the latest Saddam Hussein surprise was lifted and then brought to earth in Moscow. Combining jaw-jaw and war-war remains the best way forward now.

It offers the best chance of depriving Saddam Hussein of any traces of a political victory, while keeping allied and Iraqi civilian casualties relatively low. The coalition's goal is not to avoid a cease-fire, but to achieve one on the terms endorsed and codified in 12 United Nations resolutions.

The words "fight and talk" will stir suspicion among many who have supported George Bush most strongly in this war. The fight-and-talk option historically has been used by Third World forces to wear down the will of a militarily stronger power. The phrase recalls America's unhappy experiences in Vietnam and Korea.

Iraq has effectively launched its own version of fighting and talking by its separate actions in Kuwait and in Moscow. But like most Saddam Hussein surprises in the Gulf war, this one can be made to backfire on its originator.

The Soviets played a double game of a different sort in the Moscow talks. They trumpeted Iraq-Soviet agreement on eight points Thursday night in statements aimed primarily at the domestic audience and the Arab World.

By Friday morning they were backing away from that formulation in statements to Western journalists and claiming that they were only conveying Iraq's ideas. The Soviets leave us to conclude either that they are

fools or that they consider us as fools.

Washington should mark this discrepancy down in its Gorbachev account book for the future. But it is in American interests to accept the Soviet description of the talks as progress while emphasizing that they do not clear the way for a cease-fire.

By its own description Moscow has succeeded in prying loose Saddam Hussein's fraudulent grip on the Palestinian cause. He no longer pretends that his withdrawal is being done in the service of the Palestinians. U.S. diplomacy should make clear the nature of Saddam Hussein's sellout in Moscow.

This will help contain Saddam Hussein in Baghdad if he has not already been overthrown by the army when the war ends. The other necessary step in neutralizing Saddam Hussein without having to march on Baghdad is to force a surrender, not a withdrawal, of the Iraqi occupation army in Kuwait.

The 1973 cease-fire that the United States forced Iraq to accept in its war with Egypt and Syria had one main purpose. That was to prevent the encircled Egyptian Third Army from being crushed. Talk of a cease-fire in Kuwait becomes realistic only when the Iraqi commanders there opt for surrender instead of destruction.

His commanders in Iraq must know that Saddam Hussein does not

want defeated and humiliated units marching back into Iraq. He will deal with them as Stalin dealt with Soviet officers who lost to Germany in World War II.

Another week of air and artillery punishment should establish whether an Iraqi surrender in Kuwait is likely. If it is not, then the coalition will have little choice but to unleash the overwhelming ground offensive it has prepared. Those who argue for relying solely on air power into the future practice an unacknowledged form of triage.

The bombing preserves allied lives. It has driven Saddam Hussein to his knees. But it has also shattered Iraq's economic infrastructure and inevitably hit its civilians. The destruction of Iraq's communications, transportation and fragile health care networks means that each future raid on military targets in or near civilian areas inflicts disproportionate damage on the civilian population.

A ground offensive that would provoke an Iraqi surrender in Kuwait would be a merciful coup de grace for Iraq. Tariq Aziz's trip to Moscow establishes that Saddam Hussein has been severely weakened and now fears for his survival.

He should be given neither of the options he now seeks — a cease-fire that would give him time to catch his breath, or a martyr's death at American hands.

The Washington Post.

Bush Should Resist the Calls to March on Baghdad

By Anthony Lewis

BOSTON — The late-night agreement between Moscow and Baghdad poses hard questions for George Bush. But it entitles him to claim a great victory of principle.

And that is the way he should frame his reply: as a statement of victory.

Saddam Hussein is going to withdraw from Kuwait. That is the bottom line. Half a day after a hard-line speech in which he said he would not leave, he agreed to do so.

Some of the terms will be hard for Mr. Bush and even some Americans who have disagreed with him about the war to swallow.

One is the requirement that all United Nations resolutions about the Gulf crisis be canceled, including the call for payment of reparations by Iraq. Why shouldn't Iraq pay for the horrors it has inflicted on Kuwait?

On the other hand, there are realistic expectations of payment in Iraq's situation.

Another difficult provision calls for the lifting of economic sanctions on Iraq when its withdrawal from Kuwait is two-thirds complete. Sanctions could be a useful tool to keep degrees

of international control on what Saddam Hussein may do in future.

But against the doubts over those clauses there is the overwhelming human fact of the peace agreement. It would end the United States and its allies a ground war. That Mr. Bush could insist on a massive ground attack in this circumstance seems politically impossible.

A ground war must be off now, at least until the new situation is clarified. But Mr. Bush could keep the air attacks going on Iraqi forces in the Kuwait area while he goes into what amounts to a negotiating phase.

He can answer the proposal with modifications of his own. But he should frame his answer in affirmative terms, treating this as a victory on the fundamental question of Iraqi aggression in Kuwait.

There will be voices on the American right urging Mr. Bush to say a flat no. Those conservative voices want the United States to expend the aims of the war from forcing Kuwait to removing Saddam Hussein.

The coalition, however, formed by Mr. Bush to end the Iraqi occupation of Kuwait would split over such an expansion of war aims at the very moment peace is a possibility. The United Nations Security Council would not authorize it. Britain might go

ahead, but even that is not a certainty.

The political consequence, then, would be to remove the international support that gave the allied cause legitimacy. The divisions provoked by an American decision to go on to Baghdad would end what hope remains of Mr. Bush's "new world order."

The idea of carrying this war on to Baghdad to capture Saddam Hussein rests, in the end, on a fundamental illusion. That is the belief that complicated political problems can be solved by military action — unilateral American military action.

The Middle East is a stew-pot of conflicting religions, races, dreams. Secretary of State James Baker was surely right when he said the United States must address the region's problems "with a due sense of modesty."

The one recent success in the Middle East conflicts was a substitution of politics for force. Anwar Sadat and Menachem Begin made peace, and their work cadres amid so much instability and fear.

The New York Times.

Packing for Baghdad: Candles and Lots of Water

By Nick B. Williams Jr.

AMMAN, Jordan — So you want to go to Baghdad to cover the war. Well, you will need provisions, safety items.

Baghdad demands more than a couple of clean shirts and a new tube of toothpaste. You've got to think big.

Ask Alan Little, a British Broadcasting Corp. radio correspondent who has just returned from 10 days in the Iraqi capital. He was passing practical advice Tuesday to other reporters.

"Don't stint," he said. Take, for instance, transportation. "You'll want to take two vehicles," he advised, one for you and one to carry extra gasoline, which has almost disappeared in Baghdad. For obvious reasons under an air war, you do not want to ride in the truck hauling the gasoline.

Four-wheel trucks are recommended because the highway from the Jordan border to Baghdad has been cratered by allied bombing, and drivers have to slip off into the desert to get around the bad spots. In Amman, a four-wheeler rents for about \$1,000 a day for the Baghdad run, plus a refundable deposit of about \$33,000 if you return it in one piece. Use a professional driver.

The first requirement of the trip, of course, is an Iraqi visa. So far no one has left home without it. Since the war started just more than a month ago, several dozen Western and Asian journalists and television crew

members have reached the beleaguered Iraqi capital, about 480 miles (770 kilometers) northwest of Amman, the jump-off point. The major American television networks are there, and the international news agencies, but there have been no visas for U.S. newspapers or newsmagazines.

The writing press — some European magazine reporters have gone in — travels lighter than the radio and TV teams but their communications equipment, and Mr. Little's advice is generally applicable to all.

First, you go to the Amman branch of Safeway. "There's not much food left in Baghdad," the British radio man said. "The hotel (Rashid, where journalists are housed) is still serving meals, but it's real thin. For breakfast, you can get two boiled eggs but they're cold when you get them. And that's the only good meal of the day."

That means roughing it, and everyone is their own chef in their Rashid room. At Safeway, Mr. Little advised, "load up on tinned food, powdered soup, pasta, anything that can be heated up with a little water. You'll need to take a Primus stove for cooking and the fuel for the stove. And you want some chocolate and nuts, stuff that's easy to grab and eat if you haven't much time. Take cheese."

Water? "You can't take enough," Mr. Little said. "Once you've packed everything else in your vehicle, just

keep sticking bottled water in every available space."

Journalists who left for Baghdad last week were taking about 60 1½-liter bottles of mineral water for a one-week stay. Stocks the size of refrigerators sat on wooden pallets outside the Hotel Jordan Inter-Continental, Amman's primary home for the foreign press.

Water management is important in the Rashid. The tap works for about an hour a day, usually at 5 P.M., said Mr. Little. You want to be there to fill your bathtub. If you're out on a stoop, you will have to borrow from someone else's bathtub. For that you will need a pail. Buy two plastic pails at the Safeway, Mr. Little said, they are essential.

Take toilet paper, towels, soap, the usual camping-out stuff. Take a sleeping bag; the hotel laundry is no longer working and the bed linen has not been changed in weeks.

The nights are spooky in Baghdad, returning correspondents say. In the darkness of their rooms on the fifth and sixth floors of the Rashid, air raids over the capital come with the sudden, shocking crack of bombs and missiles.

For the writing press, assignment in Baghdad means a reversal of technology. The popular \$3,000-and-up laptop computers, favored in the trade are of little use in a city with no power; their battery packs have to be

recharged off electrical mains. The less expensive laptops that run on flashlight batteries work fine, if you have enough batteries — and the light to see your screen.

"Take candles," said Little. "Lots of candles and lots of matches."

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100, 75 AND 50 YEARS AGO

1891: Color Photographs

PARIS — Photography in colors has come more than invented. It is usually invented about once a year, but it always turns out that there has been some mistake. That it may be possible to make a sensitive plate that will reproduce colors is conceivable, although there are opticians who hold that the problem belongs to the same class as the squaring of the circle. But conceding that such a plate could be made, we are still a long way from having discovered a method of printing from it in colors. To print without pigments would be about as easy as to produce motion without force.

1916: Russia in Armenia

PETROGRAD — The forward march of the Russians in the coastal region of Turkish Armenia has brought their advance guards within a day or two's march of the port of Rizeh, thus immediately threatening Trebizond. The Turks have already

Saddam Must Not Rise Again

By A.M. Rosenthal

NEW YORK — In its new move to regain political power in the Middle East, the Gorbachev government has one vital goal: the survival of Saddam Hussein.

Of course, that happens to be precisely the result that would be most dangerous for the United States and the Middle East. It would keep the whole region at arms, and soon enough, again at war.

Washington has not been rude enough to point out the conflict of interests.

But as Saddam Hussein maneuvers to get the best value out of the Soviet "peace plan," it is easy to see what the Kremlin has at stake in his life and rule.

If he goes, through assassination or a political coup, Moscow will lose its only remaining ally in the area. Also, its best customer for weapons. Also, the military and political prestige it invested in Saddam Hussein for so long.

But if Saddam Hussein hangs on, the benefits to the Kremlin will be enormous, and continuing. Many Muslims love him, which the West tends to forget. But those who do adore him would correctly see the Kremlin as Saddam Hussein's savior.

Moscow would rebuild Iraq's armed forces. That would be a nice piece of business for the KGB and army generals with whom Mikhail Gorbachev is allied.

With Saddam Hussein ruling in postwar Baghdad, the Soviet Union would be the only intermediary between Iran and enemies in Lebanon or the West. So without contributing a rifle or a ruble during the war, Mr. Gorbachev would influence the entire Middle East after the war.

But for the United States — no benefits, just trouble without end. As long as Saddam Hussein rules, the United States will have to keep large forces in the Middle East. The U.S. armed forces would be his hostage. This is victory?

Every Arab nation that opposes him now would face his terrorism immediately, subversion always, domination eventually.

But his justification for existence would be the conquest and extermination of Israel and the Israelis. Americans like to think the Israeli army and air force can do anything. Maybe. But it took the full military and industrial power of the United States to face down the might of Iraq.

Saddam Hussein would live for the day when he would cross Jordan into Israel — by land, air or chemical missile. The Israelis would be fools if they sat and waited for him to come get them. They won't.

Now, for years President Bush and his secretary of state could not have been sweeter to Mr. Gorbachev. They praised him every hour on the hour, rounded up help for him. As for the Baltics — what Baltics?

But there goes Mr. Gorbachev acting against American interests and any hope of a stable Mideast. The sorrow of it is we are surprised.

The "experts" in government, journalism and academia who made careers panicking to Mr. Gorbachev, even after he moved to repression, still talk of the danger of his being overthrown.

But the future is already the past. Mr. Gorbachev gave the Soviet Union an important measure of free expression — not free politics. But when he decided glasnost was endangering rather than promoting his goal of keeping the Soviet system alive, he cut back fast.

He was not pushed into it by "democracy" — a word cabal of hard-core civilians and generals. He is them. Mr. Gorbachev has been overthrown already, by Mr. Gorbachev.

So the Soviet president finds it quite natural and appropriate to try to assert power in the Middle East.

The experts, including Mr. Bush and Secretary of State James Baker, never proposed Americans for that. They could not because they refused to see it themselves.

Washington talked itself into believing that Mr. Gorbachev was an essential partner in the new world order, whatever that is. But when he moved, Washington was caught off guard.

Since the invasion of Kuwait, Mr. Bush has shown that he understands the danger of the killer of Baghdad. Perhaps Washington will look more clearly at the Kremlin now.

Perhaps Mr. Bush will decide where American interests conflict with Moscow's — as in the survival of Saddam Hussein — and say so to Americans at home and in the desert.

The New York Times.

begin to evacuate Trebizond, although the loss of this important Black Sea base will deprive them of the only fortified position which would give them the opportunity of offering a serious resistance to the progress of the

Pitfalls of Collecting by Proxy

Polly Peck's Latest Woe: Auctioning the Furniture

LONDON — Only great optimists would believe that they could build up a fine art collection overnight — and make a profit at it — without previous exposure to the art or the way the market operates. The illusion is usually a costly one. This could be verified this week at Phillips when the art furniture assembled by a company to project a corporate image in its headquarters decor was put to the test of a public sale.

The company, Polly Peck, was founded by a Turkish Cypriot, Asil Nadir, whose fast rise later led to financial problems, followed by bankruptcy and charges of fraud. While Ne-

dir's fortunes were on the ascent the company moved from the East End to a lovely Georgian house at 42 Berkeley Square. Nadir commissioned an office design firm to decorate and furnish the place. Reportedly angered by the result, he terminated the contract and turned to Gilderson Tekvar, the wife of an architectural engineer employed by Polly Peck. Tekvar's initial reaction was to decline the offer. Her interests in art focused on the Arts and Crafts movement. She had no experience in English furniture of the 18th and early 19th century, which Nadir wished to see in his grand Georgian setting. The businessman persisted and eventually she let herself be persuaded to decorate the entire house, office and boardroom included, in a style that would bring it close to that of "an English stately home," as Phillips described it in a preview brochure.

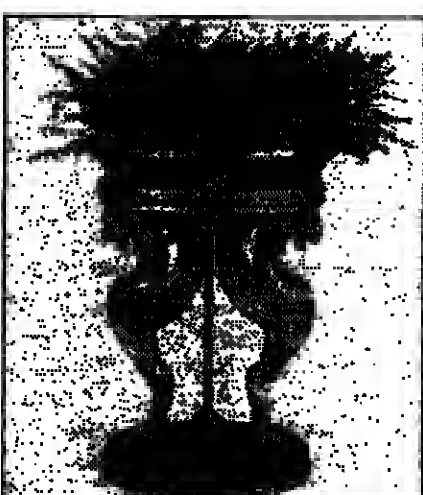
This was the beginning of a saga that could have ended in disaster. Furniture is perhaps the most difficult subject of all for a beginner. Technical considerations play a major part when determining what is authentic and what is not. It takes years to be able to tell that a piece has been reduced in size, a leg replaced here, some gilded bronze fittings added there — to say nothing of sophisticated copies. Tekvar, aware of the pitfalls, moved as cautiously as the speed required by the commission allowed.

It all started, she said in a telephone interview, with Nadir showing her marked up catalogues from two sales that were to be held at Sotheby's and Christie's in November 1986. She went to the viewings, attended the auctions and bid on some of the pieces. At Christie's, she got a pair of George III library armchairs of "Gainsborough design" and a George III bookcase with slender Gothic arches, for which she did not particularly care.

She resisted other suggestions. Some pieces would not fit into the design she had in mind. Tekvar may also have had some misgivings. The two armchairs she acquired for £16,500 and which brought £20,210 (almost \$40,000) at Phillips on Tuesday have spandrels of a later date rising from the legs. Similar problems, possibly undetected, could affect other pieces.

THE Turkish interior designer asked a friend to give her names of dependable dealers. One of her earliest contacts in the trade was Robin Kern of Hotspur, from whom she bought the pair of George III "pier glasses" — mirrors — which went for £37,560 at Phillips. She was attracted by the delicately carved ornament of early 18th century gilded wood, as well as by the more sober models of mahogany furniture.

In December 1986 she found the George I gilded gesso table she wanted for £37,890. Some time later she acquired a large giltwood and gesso chandelier of splendid George I design. It seemed immaculately preserved. This may have stimulated the "private buyer," as Phillips calls him, without additional identification, who paid £253,000 for it. Some professionals are less impressed. George Levy, of Blairman, one of the best connoisseurs of 18th



Regency giltwood jardiniere, above, and George III chair, in the Phillips sale of Polly Peck's art furniture.



century furniture from Britain, mildly observed, "I would have thought that the perfect condition of the chandelier just about removes it from the museum category."

Tekvar, anxious to stay clear of dubious pieces but, equally, not to overpay, says she bought from more than a dozen galleries. She resents comments in the London media to the effect that she only went to obvious places such as Partridge or Hotspur.

A few random checks bear out her statement. A George III partner's desk with one side in traditional rectangular pedestal form and the other, of crescent shape, resting on two legs, comes from Jeremy Ltd. on Lowndes Street. An admirable George III occasional table was supplied by the Pelham Galleries, on Fulham Road. The circular "octofold" top with eight incurving lobes borrowed from Chinese design rests on a slender baluster supported by three sinuous legs. Phillips notes in the catalogue that an "identical table, possibly the same" was included in Christie's house sale at Elveden Hall, Thetford, Norfolk on May 22, 1984. (It then had made £11,880.) This week, the price was £20,240.

Hotspur was the source of a supremely elegant piece, a corner table of the George II period bought "two years ago, for around £20,000," as Tekvar remembers it. On Tuesday its ascent stopped at £13,915, "a reasonable

price," a dealer commented to me (which means that it would be offered in the trade for quite a lot more).

For a tall tripod stand with Lexafoil top and a pretty combined barometer and thermometer, both George III, Tekvar went to Stair & Co. on Mount Street. On another occasion she bought there the exquisite George II table with an eight-lobed top. The perfect proportions, the quality of carving and the restrained use of brass inlay give this model, known from other examples, an irresistible appeal. This was obvious on Tuesday when it climbed to \$45,540. More than once, Tekvar's feel for design thus helped her buy fine models — classics in their range.

She sought to back up this feel with good provenances. She bought six George III giltwood armchairs in the Louis XV taste, probably done after a design by the great John Linnell, which originally came from Inverary Castle, home to the dukes of Argyll in Scotland. On Tuesday they were sold in twos. The three pairs went for prices between £18,975 and £20,240, respectable but still below the low estimate printed by Phillips. Neither a good feel for design nor excellent provenances afford protection from the dangers of restoration. The armchairs have been regilt and it showed too much. While the £253,000 chandelier mentioned earlier has in its favor its splendid architecture and sculptural quality, which make it unique, one can hope to stumble upon other seats from the same set.

IN other cases, provenance and previous publication in reference books do not eliminate all questions. At first sight, the George II library bookcase, which was supposed to be the star lot, is impressive. I loved the carved detail and proportions of the lower part. The piece was illustrated by Ralph Edwards in his "Dictionary of English Furniture," when it was with F. Partridge & Sons. Tekvar got the bookcase from the Pelham Galleries. All that builds up a good pedigree. But after looking at it for a while, I could not help wondering whether the upper and the lower part were born together. Did a similar question trouble others? The bookcase was bought for more than £300,000, according to trade reports, which Tekvar does not deny. On Tuesday it went for only £177,100; counting sale charges, less than half what it cost Nadir.

The greatest weakness in the assemblage, however, lay not so much in the individual pieces as in the artificial character of any collection formed by one person, or more, for another person. However open-minded the patron may be, which Nadir was, according to Tekvar, he will intervene. In the current case, other persons took part. The businessman's former wife, Aysehan Nadir, bought some pieces. Some were withdrawn before the sale. Tekvar herself bought one or two pieces of strikingly different character. One was a Regency giltwood jardiniere, which sold brilliantly at \$43,010. But this introduced a different note. This did not look like a collection. It was more like a respectable antique dealer's showcase.

The paintings, which varied erratically from a fine, if conventional, portrait of his daughter done in 1816 by William Beachley, to Orientalist works such as Jean-Léon Gérôme's "Harem Ladies Feeding Pigeons," personally bought by Nadir at Christie's in March 1989, strengthened that impression.

Never was anything further removed from the atmosphere of an English stately home, which the decor was purported to recreate. Given the circumstances, Tekvar did a very good job. But in collecting art as in marriage, things cannot be done by proxy. This has to be a personal undertaking. For Phillips, the \$44 million sale was a success. For Nadir, the man behind the scheme, it must have represented a very substantial loss.

Love And Art

By Claire Frankel

LONDON — The 1939 self-portrait of Stanley Spencer that introduced his retrospective at the Barbican Art Gallery conveys only an ambiguous impression of the artist. Brush poised in left hand, palette in right, he is improbably attired in a neat brown suit, crisp white shirt and knotted blue tie — unconvincing for any working painter. For Spencer, known for his disheveled appearance, it is absurd. But this abstruse posturing is very much part of his life, work and personality.

The seventh son in a somewhat impoverished late Victorian family of 11 children, Stanley Spencer was born in Cookham-on-Thames in Berkshire in 1891. His father, William, was an organist and music teacher, a fervent reader of the Bible (aloud) and regular churchgoer. School for young Stanley meant pursuing his own interests in the garden shed under the guidance of his sisters Annie and Florence. This unstructured early village life entwined with the Bible and Bach, provided Spencer with subject matter for the rest of his life.

The centenary tribute, "The Apotheosis of Love" (until April 1), represents Spencer's unrealized vision of a "Church-House," a space combining aspects of church and town in which chapels/homes branch off a central aisle/main street. A visitor to the show could be entering a nave with the large, pale "Crucifixion" (c. 1958), as the altarpiece. Small, partitioned rooms open up on either side so that moving chronologically from one space to another, Spencer's life, his philosophy and his fantasies unfold. The central thread is his abiding love for his first wife, Hilda. "My union with you is my union with the world," he wrote to her in 1947, 15 years after they parted.

In the cubicle designated "The Domestic Scenes," one of the paintings, in sepia shades, "Going to Bed" (c. 1936), shows Stanley in a large double bed covered with a leaf-patterned spread. Two nude children romp, one climbing his propped-up knee. In the foreground, Hilda sits on a wooden stool, removing her stockings. It is domestic, prosaic.

In another, "At the Chest of Drawers," painted the same year, the squatting, brown-suited Stanley is almost completely overshadowed by the immense, half-dressed body of Hilda, bending over him to retrieve something from the open bottom drawer. Behind them, smooth white sheets and a tucked hot water bottle await their entry. "I am very fond of chest of drawers & wives," he wrote, "they are both containers of things I like." The



Stanley Spencer's "The Beatitudes of Love: Desire."

very ordinariness of subject forms a bond with the viewer. "The Beatitudes of Love" is a series of near-caricatures. "Desire," painted in 1937, depicts a large woman with vast, bulbous breasts covered in a pink flowered dress, listening with resignation to the obvious request of her short, beseeching male companion. She looks elsewhere; she's heard it all before.

During the years after Hilda's mental illness forced their parting in 1932, Spencer began painting more salable landscapes, what he termed his "potboilers." At the same time, he pursued Patricia Preece, for whom he felt an intense passion — Hilda thought she was a vamp looking for money. He finally married Preece in 1937 but their relationship, according to Spencer, had no sexual fulfillment — there were also intimations of lesbianism. In "The Patricia Chapel," we are confronted with portraits of her, be-

ginning with a clothed, tight-lipped portrayal (c. 1933) followed by nude oils of her and of them together. No blemish, no vein, no hair is forgotten. In "Double Nude Portrait," Patricia lies on a purple-striped bedspread, arms behind her head, knees well apart. Spencer, spectacled, sits on the spread just perpendicular to her waist, looking at her. She stares into the distance. In the foreground, an uncooked leg of lamb introduces another kind of flesh. Their satin modesty is factual, not erotic. The meat is disconcerting. Francis Bacon and Lucian Freud leap to mind.

The marriage to Patricia Preece — he had wanted a ménage à trois but neither lady would play — lasted only until the disastrous honeymoon in St. Ives. By 1938, Spencer, also sued by Hilda for not paying alimony, had had a breakdown and was living alone in London. There he began, in the

following year, a series of paintings called "Christ in the Wilderness." He had planned to do 40 of them and completed eight between 1939 and 1943. They are shown, identically framed and lit, in a chapel-like enclosure hung unnaturally high so that the viewer is forced to look up to them. Spencer identified with this aloneness and these paintings are introspective, autobiographical. In a conversation quoted in John Rothenstein's "Stanley Spencer," he said, "I think God created Man, because he must have been so lonely."

Over 30 years after his death, this remarkable, nonconformist painter has made it into the international market. Last March, "The Resurrection" sold at Christie's for £770,000. Two months later, "The Crucifixion" sold at Sotheby's for £1.32 million.

Claire Frankel is an American journalist who lives in London.

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ECONOMIC SCENE

Greenspan Seems to Be In a Quandary on Rates

By David E. Rosenbaum

WASHINGTON — Like judges, economic policymakers rely on precedents. If the economy performed a certain way in a particular set of circumstances, then, the policymakers assume, it will perform a similar way when those circumstances recur.

Alan Greenspan, who is not only the government's foremost economic policymaker nowadays but practically its only one, has always depended on the lessons of the past. The problem for Mr. Greenspan now is that the economy faces conditions that he and other economists have never seen before.

Probably no other chairman of the Federal Reserve has had a firmer grasp of economic history, has logged more hours in front of the computer screen working with historical models or has more faith in the view that a master tailor could turn the economy into a seamless fabric with careful nips and tucks.

He once told a visitor that at any one time there is one perfect interest rate, and his job description is to find that rate.

But in two days of congressional testimony this week, the semiannual testimony he is required by law to give on monetary policy and the state of the economy, Mr. Greenspan seemed to be in a quandary about whether to lower interest rates further to counter the recession or stand pat and let the rate cuts of late last year and early this year work their way through the economy.

The times warrant extreme caution, he told the Senate Banking Committee on Wednesday, because "the major mistakes in monetary policy are often made at turning points, and it is very difficult to avoid them." He made a similar statement Thursday to the House Banking Committee's Subcommittee on Domestic Monetary Policy.

THE CURRENT outlook is unusually clouded," Mr. Greenspan said, "by uncertainties about the war and its effects." Not only does no one know how long the war will last, but economists have no experience with a war fought in large part with military stocks that may not have to be replaced.

Other circumstances are equally unfamiliar to the Federal Reserve and other economists, including:

- The current recession is the first since at least World War II that began when interest rates were already falling.

- Despite one move after another, the Fed has been unable so far to counteract the persistent scarcity of credit.

- The financial system is extremely weak, and some economists believe a few bank failures could have devastating economic consequences.

- For the first time in memory, the government has no fiscal policy to deal with economic hard times.

Mr. Greenspan said the "central tendency" of Federal Reserve Board governors and regional bank presidents was to believe that the economy would grow between three-fourths of a percent and 1.5 percent this year, a forecast in line with the ones made by the Bush administration and many private economists.

But Mr. Greenspan said the range of views among the 6 governors and 12 bank presidents was much wider, with one and perhaps more predicting the economy would shrink by as much as half of 1 percent this year.

"This divergence of opinion has its roots in the major uncertainties facing all forecasters today," the chairman said. He said he could not rule out the possibility of a long and deep recession. Of all these uncertainties, the most serious and the hardest to fathom, in Mr. Greenspan's view, is the "continued failure of banks to make loans to creditworthy customers. As long as banks are not lending, businesses will not invest, consumers will not spend and the country cannot pull out of the recession."

Mr. Greenspan says he knows what caused the problem:

See GREENSPAN, Page 12

Today the U.S. economy faces conditions that economists have never seen before.

Prince Sets Citicorp on Path to Funding

Compiled by Our Staff From Dispatches

NEW YORK — The investment by a Saudi prince of \$590 million in Citicorp is expected to pave the way for the bank to raise fresh capital to bolster its resources, which have been eroded in recent years by doubtful real estate and foreign lending.

Prince Waleed bin Talal's investment, which will make him the largest single shareholder in Citicorp, represents at least one-third of the \$1 billion to \$1.5 billion in new money that Citicorp hopes to raise through the sale of common and preferred stock. Bank officials hope it will spark interest by other investors.

Citicorp, the largest U.S. banking company, is the sole owner of Citibank.

The prince, who quietly bought 4.9 percent of Citicorp's common stock in the last months of 1990, agreed Thursday to buy a block of Citicorp's nonvoting preferred stock.

He could eventually own as much as 14.9 percent of the company if he converts the new preferred stock to common stock, but he will not be represented on Citicorp's board and has promised not to try to gain control of the company.

The Federal Reserve, which has been encouraging Citicorp to improve its financial condition, informally approved the investment on Tuesday. And it has indicated that it will grant official approval if the prince's invest-

Citicorp's Profits and Losses

In millions, quarterly figures, \$600



Source: Washington Post News Research

ment rises above 10 percent of Citicorp's common stock. The Fed's approval is required for any purchase of 10 percent or more of the stock of an American banking company.

Although spokesmen for Prince Waleed and for Citicorp insisted that the transaction was based strictly on business rather than political motives, observers said it was likely to be regarded as a gesture of increased financial cooperation between the United States and Saudi Arabia during the war in the Gulf.

Prince Waleed, 35, a distant relative of King Fahd, has told officials at the Fed and Citicorp that he is acting on his own behalf and not for the government or other members of the royal family.

John S. Reed, the chairman of Citicorp, said in an interview that the prince's investment was the first of several moves that the company was arranging to improve its financial strength. These include selling securities, raising equity capital from investors and selling some parts of its business.

"Over the long term, I would like our capital base to be spread more broadly around the world," Mr. Reed said.

At a time when Citicorp's stock has fallen out of favor with investors and Moody's Investors Service has downgraded Citicorp preferred stock to a speculative "junk" rating, Prince Waleed appears to have struck a very good deal.

In addition to an 11 percent dividend on the convertible preferred stock, he may earn a profit to the extent that Citicorp stock rises above \$16 a share. The stock closed at \$15.375 Thursday; the deal was announced after the New York Stock Exchange closed. The bank company's stock rose 12 1/2 cents to close at \$15.50 on Friday.

The 11 percent yield is roughly the same as on other Citicorp preferred issues, but the other issues do not have the potential for gain if the stock price improves.

The source of the money for the Citicorp investment is not completely clear.

Most of what is known about the prince comes from his advisers and his own account, rendered during the few times he has

See CITICORP, Page 10

Soviets Move to Scrap Central Planning

Agence France-Press

MOSCOW — The Soviet prime minister, Valentin S. Pavlov, outlined plans on Friday for dismantling Gosplan, the state planning agency, along with nearly all ministries currently involved in industrial production.

"We have changed rather drastically the structure of the cabinet of ministers," Mr. Pavlov said. He said that a blueprint of the new structure would be submitted to the Soviet legislature.

"We have undertaken to eliminate all elements previously engaged in direct management of production," said Mr. Pavlov, a former finance minister.

He said the new system would retain only a number of technical ministries, including those for railways, power engineering and nuclear energy.

"We believe that we do not need Gosplan as such, but rather a ministry of economics and forecasts," he said. The only production-related ministry to remain will be for automobiles and tractors, he said.

He said that dismantling the state apparatus overseeing industry would take place over a period of "two or three years."

Moscow will retain centralized control over weapons production, he also said.

Until now, the whole Soviet economic system was run by centralized ministries that decided what would be produced, where and at what price.

Mr. Pavlov said that state intervention should be limited to measures designed to boost production of some goods, or to prevent problems such as pollution.

He said that privatization of industry might take different forms in specific cases.

"At present, we are lagging behind in forming a legislative basis for privatization," he said.

Mr. Pavlov, who recently accused foreign banks of planning to destabilize the Soviet government by flooding the country with billions of rubles to create hyperinflation, expressed regret that his comments had been interpreted as a general attack on Western businesses.

But he renewed his allegations, saying that several banks, notably in Geneva and London, appeared to have entered into deals with Soviet banks or "Columbian-type mafias" to exchange dollars for billions of rubles.

The prime minister also rejected sole Western management of Soviet enterprises and warned that Soviet firms involved in import-export deals would be closed down if they did not repatriate hard currency illegally held abroad.

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A Heavy Hand at Moscow Watch Factory No. 1

By Steven Greenhouse

New York Times Service

MOSCOW — Alexander Samsonov, a towering man of gruff voice and crumpled handshake, has little need for Harvard Business School techniques in running Moscow Watch Factory No. 1.

Instead, he relies on tough Communist tactics and primitive capitalist instincts, and with this "do what I say" approach, he has made his factory a showcase by Soviet standards.

By Western standards, however, the factory remains years behind the time.

Mr. Samsonov likes to tell visitors that his factory made the watch that Mikhail S. Gorbachev presented to Ronald Reagan. He boasts that 80 percent of his factory's watches are exported.

But Watch Factory No. 1 also claims achievements that would embarrass watchmakers at Seiko and Patek Philippe. Managers proudly note that customers now return as defective just 1.5 percent of the factory's watches, down from 4 percent five years ago.

And Mr. Samsonov notes that the 6,500-employee factory produced more than 6 million watches last year, up 60 percent from 1985. This means the factory produced 1,000 watches for each worker — one tenth the ratio at Seiko.

Still, there is no denying that since 1985, when Mr. Samsonov left his ministry post overseeing the watch industry to take the factory's helm, he has made Factory No. 1 a far more efficient place. He installed millions of rubles' worth of new machinery, hoping to double production. He also dismissed laggards, began an anti-alcohol campaign and created a stern corporate culture that demanded hard work.

"There is a tough rule here that people should behave according to certain norms," he said, stretching his hands across the 6-meter-long (20-foot) conference table in his office. "Some people who don't like tough discipline will go work at other places. That's fine with me."

His factory's watches generate large sums of much-needed hard currency. Selling under the name Poljot, the watches command a good price abroad, often selling in Britain and France for the equivalent of \$200. Most exports are to Western Europe and East Asia.

With watches sturdier than most other Soviet types, Poljot has outpaced its domestic competition in introducing designs and technologies.

"This is a vanguard enterprise," said a factory worker, Valentina Dvornikova, as she took a short break from her workbench. "There is a lot of attention to quality and discipline here."

The factory's new designs are solid and classical, with neither the panache of Swatches nor the swagger of Rolex. It was only five years ago that the factory began making women's watches.

"They make good, durable, no-fills, workman's watches," said Joseph Thomson, editor in chief of Modern Jeweler. "They make it on price and, to some extent, durability. But technologically the world has passed them by."

Seventy percent of the watches are quartz; the rest, mechanical. On that front, Mr. Samsonov is struggling to advance. In the section of his cavernous factory that makes quartz watches, he has added automated machines that slashed the time needed to put hands on a watch to 1.5 seconds from 90 seconds.

But where mechanical watches are assembled, the floor is filled with decades-old equipment. Behind dozens of rows of tables, women, young and old, are hunched over, squinting as they delicately insert minuscule gears and other parts.

Foremen pace the floor like examination proctors trying to make sure no one is slacking off.

"Some Swiss watch people who visited our factory were amazed that we could still get so much out of these old machines," said Mr. Samsonov. He said profits had tripled since he arrived but declined to give figures.

When not working as a hard-nosed manager, Mr. Samsonov works as a hard-line Communist deputy in the Soviet parliament. He is remembered for having once suggested that some democracy student protesters be shipped to labor camps to learn the meaning of hard work.

Dollar Jumps Amid Hopes of End to Conflict

Compiled by Our Staff From Dispatches

NEW YORK — Optimism in the currency market about a quick end to the war in the Gulf propelled the dollar upward Friday.

"The mood is that an actual end to the war is positive for the U.S. economy," said Diego Gurileo, manager at the Royal Bank of Canada. "Dollar sentiment is positive."

The currency was also supported by a statement from David Mulford, the U.S. undersecretary of the Treasury, that exchange rates are at about the right levels.

A rally on the New York Stock Exchange, after President George Bush's demand that Iraq pull out of Kuwait to avert a ground war, deflated in a flurry of profit-taking on nervousness about the possibility of a weekend ground war. (Page 10)

Oil prices slumped to their lowest levels since July, and gold also plunged.

European and Asian stock markets reacted cautiously, but most of

those markets were closed or winding down as Mr. Bush told Iraq to begin withdrawing troops from Kuwait within 24 hours or face the prospect of a ground war.

The dollar rose in New York to 1.5035 Deutsche marks from 1.4918 at the close on Thursday; to 132.05 yen from 131.27; to 1.2923 Swiss francs from 1.2750, and to 5.1225 French francs from 5.0755.

The British pound ended at \$1.9445, down from \$1.9570.

Mr. Mulford, in a television interview, said Friday that the United States and other major industrial nations believed that exchange rates are at about the right levels now.

He took issue with those who argue that a further cut in U.S. interest rates would trigger a dollar free-fall. While interest rate differentials do affect exchange rates, so too do many other factors, he said.

Foreign exchange dealers in New York were wary about predicting a sustained dollar rally, saying that dollar strength now hinged on whether Iraq would pull out of Kuwait by Mr. Bush's deadline of noon Saturday, Washington time.

"It's kind of a crapshoot," said Eugene Chang, a trader at BankAmerica in Los Angeles.

Mr. Bush's comment that President Saddam Hussein had launched a "scorched earth" policy against Kuwait, which could be an indication that the Iraqi president anticipated being forced to leave the occupied country, triggered dollar buying that later snowballed.

"Over the past few days, the threat of peace is perceived as buoyant for the dollar," said John McCarthy, chief dealer at Allgemeine Bank Nederland.

Earlier in London, the dollar closed firmer. Despite the rise, however, business was still unwilling to take positions until there was some solid evidence that Iraq was willing to withdraw.

The dollar ended at 1.5035 DM, up from Thursday's London close of 1.4918.

See DOLLAR, Page 10

Bonn Coalition Agrees on Rise in Gasoline Tax

Agence France-Press

BONN — Chancellor Helmut Kohl's center-right government agreed on Friday to raise the gasoline tax beginning July 1 to finance Germany's contribution to the Gulf war and the modernization of eastern Germany.

Plans approved by the three-party governing coalition call for a 25-pennig (17-cent) rise in the tax per liter, which the government hopes will bring in an extra \$11.5 billion (Deutsche marks \$10.4 billion) in revenue.

On Wednesday, the cabinet approved a draft 1991 budget calling for a contribution of more than 10 billion DM to the war effort and a federal deficit of about 70 billion DM.

See DOLLAR, Page 10

OIL & GAS DEVELOPMENT CORPORATION PAKISTAN

INVITATION FOR PRE-QUALIFICATION OF TURNKEY CONTRACTORS FOR DHODAK GAS/CONDENSATE PROCESSING FACILITIES

Oil and Gas Development Corporation (OGDC), a statutory corporation of Pakistan, is undertaking a development project at its Dhodak Gas/Condensate Field under Islamic Development Bank (IDB) financing. The field is located about 650 km south-west of Islamabad (about 200 km north-west of Multan) in Dera Ghazi Khan district of Punjab province of Pakistan.

The project inter-alia includes installation of gas-condensate processing plant, surface production gathering system and a transfer pipeline. The facilities are required to produce about 50 MMscfd of sales gas, about 170 tonnes per day LPG and process approximately 2500 bpd of condensate to produce saleable products.

EB Global Engineering Ltd, U.K. have been engaged to provide engineering consultancy services including process selection and basic engineering package for the Dhodak gas/condensate processing plant.

Reputable general contractors who are capable of performing detailed engineering, manufacturing, supply, installation, testing, and commissioning of the plant, utilities and all offsite facilities and who have successfully performed the same kind of work in the recent past, are invited for prequalification as turnkey contractor for this project.

The prequalification of turnkey contractors shall be subject to boycott regulation of the Islamic Conference or of the League of Arab States.

Prospective contractors may obtain the prequalification (PQ) document on or before 28 February 1991, from either of the following on payment of non-refundable fee of U.S. Dollars 1000.00 (for purchase in U.K.) or Rs. 22000.00 (for purchase in Pakistan).

Mr. Saeed A. Khokhar
Project Coordinator
Dhodak Development Project
Oil and Gas Development Corporation
14-K Bldg. Markaz F-3
Islamabad Pakistan

Telephone No. 852616 or 85002233
Telex 5692 OGDC PK

Mr. Geoff Stephens/Mr. S.K. Shah
EB Global Engineering Ltd.
Randolph House
46-48 Wellesley Road
Croydon
Surrey CR9 1YG
United Kingdom

Telephone No. 081-681-6810
Telex No. 263310 GLOBBAUK G

Last date for submission of PQ proposals by the prospective contractors is 14 March 1991.

CURRENCY RATES

Cross Rates	Feb. 22	Feb. 21	Feb. 20
American dollar	1.00	1.00	1.00
British pound	0.63	0.63	0.63
French franc	6.55	6.55	6.55
German mark	1.36	1.36	1.36
Italian lira	2.36	2.36	2.36
Japanese yen	136	136	136
Swiss franc	1.48	1.48	1.48
Spanish peseta	166.64	166.64	166.64
Portuguese escudo	200.48	200.48	200.48
Dutch guilder	3.60	3.60	3.60
Belgian franc	33.36	33.36	33.36
Australian dollar	0.75	0.75	0.75
New Zealand dollar	0.65	0.65	0.65
South African rand	1.48	1.48	1.48
Israeli sheqel	1.80	1.80	1.80
Indian rupee	47.54	47.54	47.54
Thai baht	54.80	54.80	54.80
Singapore dollar	0.65	0.65	0.65
Malaysian ringgit	0.47	0.47	0.47
Philippine peso	49.68	49.68	49.68
Chinese yuan	8.27	8.27	8.27
South Korean won	200.48	200.48	200.48
Indonesian rupiah	1666.58	1666.58	1666.58
Thai baht	54.80	54.80	54.80
Singapore dollar	0.65	0.65	0.65
Malaysian ringgit	0.47	0.47	0.47
Philippine peso	49.68	49.68	49.68
Chinese yuan	8.27	8.27	8.27
South Korean won	200.48	200.48	200.48
Indonesian rupiah	1666.58	1666.58	1666.58

Other Dollar Values

Currency	Per \$	Per \$	Per \$
Australian dollar	0.75	0.75	0.75
British pound	0.63	0.63	0.63
French franc	6.55	6.55	6.55
German mark	1.36	1.36	1.36
Italian lira	2.36	2.36	2.36
Japanese yen	136	136	136
Swiss franc	1.48	1.48	1.48
Spanish peseta	166.64	166.64	166.64
Portuguese escudo	200.48	200.48	200.48
Dutch guilder	3.60	3.60	3.60
Belgian franc	33.36	33.36	33.36
Australian dollar	0.75	0.75	0.75
New Zealand dollar	0.65	0.65	0.65
South African rand	1.48	1.48	1.48
Israeli sheqel	1.80	1.80	1.80
Indian rupee	47.54	47.54	47.54
Thai baht	54.80	54.80	54.80
Singapore dollar	0.65	0.65	0.65
Malaysian ringgit	0.47	0.47	0.47
Philippine peso	49.68	49.68	49.68
Chinese yuan	8.27	8.27	8.27
South Korean won	200.48	200.48	200.48
Indonesian rupiah	1666.58	1666.58	1666.58

INTEREST RATES

Eurocurrency Deposits	Feb. 22	Feb. 21	Feb
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MARKET DIARY

Wall Street Mixed
On Gulf Uncertainty

NEW YORK — Stocks closed narrowly mixed Friday in heavy trading on the New York Stock Exchange as uncertainty about what may happen in the Gulf over the weekend pushed the market into a late tumble.

The Dow Jones industrial average, which fell 7.18 points Thursday, lost 2.47 to close at 2,889.36.

The market rose sharply in the late morning after President George Bush took a tough stance against Iraq in his response to the Soviet Union's peace plan.

Analysts said Mr. Bush's hawkish response to the plan, combined with reports that U.S. war-

planes dropped napalm on Iraqi troops, wiped out the market's rally, which had hit 40 points.

"The Dow was up about 40 or 45 points when the reports that we were using napalm hit the tape," said Ron Dorn, director of institutional trading at C.L. King & Associates in Albany, New York.

Thar and Bush's cool response put a lot of people on edge going into the weekend, he said. "They just decided to take some profits and wait and see what happens."

On the trading floor, Citicorp was the most active issue, up 1/4 to 15 1/4.

Philip Morris followed, up 1/4 to 67 1/4. Laidlaw Class B was third, up 1/4 to 16 1/4.

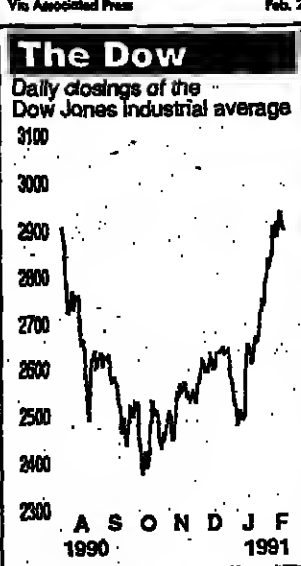
Among the other blue chips, AT&T was unchanged at 33 1/4, IBM lost 1/4 to 133 1/4, General Electric added 1/4 to 69 1/4 and Boeing gained 1/4 to 47 1/4.

Prices gained in active trading on the American Stock Exchange.

The Amex Market Value index rose 0.26 to 342.01. Advances led declines, 329 to 268, among the 795 issues traded. Volume totaled 15.89 million shares compared to 14.55 million Thursday.

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Analysts said Mr. Bush's hawkish response to the plan, combined with reports that U.S. war-



NYSE Most Active

Vol.	High	Low	Last	Chg.
CITICORP	15 1/4	15 1/8	15 1/4	+1/4
Philip Morris	67 1/4	67 1/8	67 1/4	+1/4
Laidlaw Class B	16 1/4	16 1/8	16 1/4	+1/4
AT&T	33 1/4	33 1/4	33 1/4	0
IBM	133 1/4	133 1/8	133 1/4	-1/4
General Electric	69 1/4	69 1/8	69 1/4	+1/4
Boeing	47 1/4	47 1/8	47 1/4	+1/4

AMEX Most Active

Vol.	High	Low	Last	Chg.
AMEX 100	342.01	341.75	342.01	+0.26
AMEX 200	15.89	15.85	15.89	+0.04
AMEX 500	14.55	14.51	14.55	+0.04
AMEX 1000	11.22	11.18	11.22	+0.04
AMEX 1500	8.95	8.91	8.95	+0.04
AMEX 2000	6.78	6.74	6.78	+0.04
AMEX 2500	4.61	4.57	4.61	+0.04
AMEX 3000	2.44	2.40	2.44	+0.04
AMEX 3500	0.27	0.23	0.27	+0.04
AMEX 4000	0.10	0.06	0.10	+0.04
AMEX 4500	0.03	0.00	0.03	+0.04
AMEX 5000	0.00	0.00	0.00	+0.04

NYSE Diary

Company	High	Low	Last	Chg.
Advanced	15 1/4	15 1/8	15 1/4	+1/4
Declined	15 1/8	15 1/4	15 1/8	-1/8
Unchanged	15 1/4	15 1/4	15 1/4	0
Total Issues	15.89	15.85	15.89	+0.04
Total Volume	15.89	15.85	15.89	+0.04
Total Shares	15.89	15.85	15.89	+0.04

NASDAQ Diary

Company	High	Low	Last	Chg.
Advanced	15 1/4	15 1/8	15 1/4	+1/4
Declined	15 1/8	15 1/4	15 1/8	-1/8
Unchanged	15 1/4	15 1/4	15 1/4	0
Total Issues	15.89	15.85	15.89	+0.04
Total Volume	15.89	15.85	15.89	+0.04
Total Shares	15.89	15.85	15.89	+0.04

Open	High	Low	Close	Chg.
Index	2891.3	2889.3	2889.3	-2.47
Indust	1112.3	1110.3	1110.3	-0.47
Transp	112.3	112.3	112.3	0.00
Comm	100.3	100.3	100.3	0.00
Relat	100.3	100.3	100.3	0.00

Open	High	Low	Close	Chg.
Indust	429.3	429.3	429.3	0.00
Transp	22.3	22.3	22.3	0.00
Comm	12.3	12.3	12.3	0.00
Relat	12.3	12.3	12.3	0.00
SP 100	329.3	329.3	329.3	0.00

Open	High	Low	Close	Chg.
Indust	194.3	194.3	194.3	0.00
Transp	19.3	19.3	19.3	0.00
Comm	19.3	19.3	19.3	0.00
Relat	19.3	19.3	19.3	0.00
NYSE	194.3	194.3	194.3	0.00

Open	High	Low	Close	Chg.
Indust	429.3	429.3	429.3	0.00
Transp	22.3	22.3	22.3	0.00
Comm	12.3	12.3	12.3	0.00
Relat	12.3	12.3	12.3	0.00
NASDAQ	429.3	429.3	429.3	0.00

Open	High	Low	Close	Chg.
Index	342.01	341.75	342.01	+0.26
Indust	15.89	15.85	15.89	+0.04
Transp	1.22	1.22	1.22	0.00
Comm	1.22	1.22	1.22	0.00
Relat	1.22	1.22	1.22	0.00

Open	High	Low	Close	Chg.
Index	142.3	142.3	142.3	0.00
Indust	14.23	14.23	14.23	0.00
Transp	1.42	1.42	1.42	0.00
Comm	1.42	1.42	1.42	0.00
Relat	1.42	1.42	1.42	0.00

Open	High	Low	Close	Chg.
Index	217.00	217.00	217.00	0.00
Indust	21.70	21.70	21.70	0.00
Transp	2.17	2.17	2.17	0.00
Comm	2.17	2.17	2.17	0.00
Relat	2.17	2.17	2.17	0.00

Open	High	Low	Close	Chg.
Index	0.21	0.21	0.21	0.00
Indust	0.21	0.21	0.21	0.00
Transp	0.21	0.21	0.21	0.00
Comm	0.21	0.21	0.21	0.00
Relat	0.21	0.21	0.21	0.00

Open	High	Low	Close	Chg.
Index	15.89	15.85	15.89	+0.04
Indust	1.22	1.22	1.22	0.00
Transp	1.22	1.22	1.22	0.00
Comm	1.22	1.22	1.22	0.00
Relat	1.22	1.22	1.22	0.00

Open	High	Low	Close	Chg.
Index	15.89	15.85	15.89	+0.04
Indust	1.22	1.22	1.22	0.00
Transp	1.22	1.22	1.22	0.00
Comm	1.22	1.22	1.22	0.00
Relat	1.22	1.22	1.22	0.00

Open	High	Low	Close	Chg.
Index	15.89	15.85	15.89	+0.04
Indust	1.22	1.22	1.22	0.00
Transp	1.22	1.22	1.22	0.00
Comm	1.22	1.22	1.22	0.00
Relat	1.22	1.22	1.22	0.00

Open	High	Low	Close	Chg.
Index	112.3	112.3	112.3	0.00
Indust	11.23	11.23	11.23	0.00
Transp	1.12	1.12	1.12	0.00
Comm	1.12	1.12	1.12	0.00
Relat	1.12	1.12	1.12	0.00

Open	High	Low	Close	Chg.
Index	112.3	112.3	112.3	0.00
Indust	11.23	11.23	11.23	0.00
Transp	1.12	1.12	1.12	0.00
Comm	1.12	1.12	1.12	0.00
Relat	1.12	1.12	1.12	0.00

Open	High	Low	Close	Chg.
Indust	429.3	429.3	429.3	0.00
Transp	22.3	22.3	22.3	0.00
Comm	12.3	12.3	12.3	0.00
Relat	12.3	12.3	12.3	0.00
SP 100	329.3	329.3	329.3	0.00

Open	High	Low	Close	Chg.
Indust	194.3	194.3	194.3	0.00
Transp	19.3	19.3	19.3	0.00
Comm	19.3	19.3	19.3	0.00
Relat	19.3	19.3	19.3	0.00
NYSE	194.3	194.3	194.3	0.00

75.54	73	r	r	r	0.13	0.28
75.54	74	r	r	r	0.31	0.90
75.56	74 1/2	r	r	r	0.30	r
75.56	75	r	r	r	0.42	r
75.54	75 1/2	r	r	r	0.75	r
75.56	76	0.60	r	r	0.94	r
75.56	77	0.27	r	1.05	r	r
75.54	78	0.28	0.36	r	r	r
75.56	78 1/2	r	0.44	c	r	r
75.54	79	r	0.34	c	r	r

Rise in U.K. Bad Debt Leaves Lloyds Profit Below Estimates

By Leigh Bruce
International Herald Tribune

LONDON — Lloyds Bank PLC announced disappointing 1990 results on Friday that reflected a sharp rise in bad corporate debt in Britain and severe pressure on retail banking profit.

Analysts said the results indicated that Britain's three other major banks would report numbers significantly worse than expected.

"We are issuing a warning for the entire sector," said Robert Law of Lehman Brothers International.

"We should brace ourselves for a very bad 1991."

Lloyds, the most profitable of the four largest British banks, had pretax profit of £591 million (\$1.16 billion) in 1990, against a loss of £715 million in 1989.

Analysts had expected pretax profit of £600 million to £775 million. They also pointed out that the results were padded by a £125 million gain from foreign-exchange transactions on Lloyds's Third World debt portfolio.

Pretax profit for the second half was £183 million, down from £408 million in the first six months.

Provisions for bad debt totaled £778 million, down from £2.11 billion in 1989 because of a turnaround in the bank's Third World debt situation. Britain, however, accounted for £732 million of the provision, up from £198 million in 1989. About 70 percent of the bad debt in Britain was accumulated in the second half, when the recession gathered steam.

Excluding the gains from foreign-exchange transactions and profits from the sale of Third World debt, the underlying bad debt position was closer to £930 million, analysts said.

"It is clear that the bad debt has spread across the board to all sizes of companies and all sectors of business in the U.K.," Mr. Law said.

The analysts said the major question for the big British banks was whether they could get through 1991 without a deterioration of their balance sheets. Lloyds's risk-asset ratio improved to 8.5 percent from 7.4 percent for total capital, and to 5.2 percent from 4.4 percent for core capital.

"This is a reasonably strong performance," said Michael Lever of Smith New Court, "and I think one should be reasonably confident that Lloyds will be able to withstand what is going to be a worse year on the macroeconomic level."

The bank's chairman, Sir Jeremy Morse, said trading conditions had been "worse than expected in 1990, especially in the UK, and are not

He added that Lloyds was not the only bank facing troubles. "For the first time in my working life," he said, "European banks are arguably better placed than large American or Japanese banks, and we can count ourselves among the stronger European banks."

While the bank's 1990 results were depressed by poor performances in retail and corporate banking, insurance and financial services showed some growth.

U.K. retail banking showed profit of £168 million before tax, down from £591 million in 1989, and corporate banking showed a loss of £8 million, compared with profit of £125 million.

Britain Values 2 Power Firms At £2 Billion

The Associated Press

LONDON — The government on Friday put a price tag of more than £2 billion (\$3.5 billion) on National Power PLC and PowerGen PLC, the two electricity generating companies being sold in Britain's latest privatization.

Energy Secretary John W. Hinchey said 1.23 billion shares in the two companies would be sold starting next month at 175 pence a share, yielding £21.5 billion before costs.

The 1.23 billion shares represent 60 percent of the companies. The government is retaining 40 percent in the hope that the rest might bring a better price later.

The government sold the regional distribution companies of England and Wales for £5.18 billion in December.

Thursday's pricing was less attractive than the last privatization, which critics said was priced too cheaply to insure success in the face of nervous market conditions.

Group Claims Support To Stop Nat-Ned Deal

By Sara Hienley
Special to the Herald Tribune

AMSTERDAM—A shareholders' lobby claimed Friday that it was to block the merger of insurance companies Nationale-Nederlanden NV and NMB Postbank Groep had the support of more than 20 percent of Nat-Net holders, but analysts said the spoiling effort seemed likely to fail.

"We think it will be very difficult to get it through," said Philip Mense, analyst at Theodore Ghiselsa Benelux in Amsterdam.

The shareholder group's effort is the third and perhaps last attempt to block the controversial merger, which would create the largest Dutch financial-services company. The group claims the terms of the deal undervalue Nat-Net's shares.

A spokesman for the Dutch shareholders' lobby, VEB, said investors holding more than 20 percent of Nat-Net's share capital have given it a proxy instruction to vote against the swap-off, but that would create the merged entity, Internationale Nederlanden.

percent of Nat-Ned investors by Feb. 27, it will refuse to tender the block, thereby denying Nat-Ned the margin it needs to complete the deal.

If it falls short of a majority VEB's mandate will lapse and investors will have to vote on their own behalf. The group will announce its intentions on Feb. 28 one day before the deadline for accepting the exchange offer.

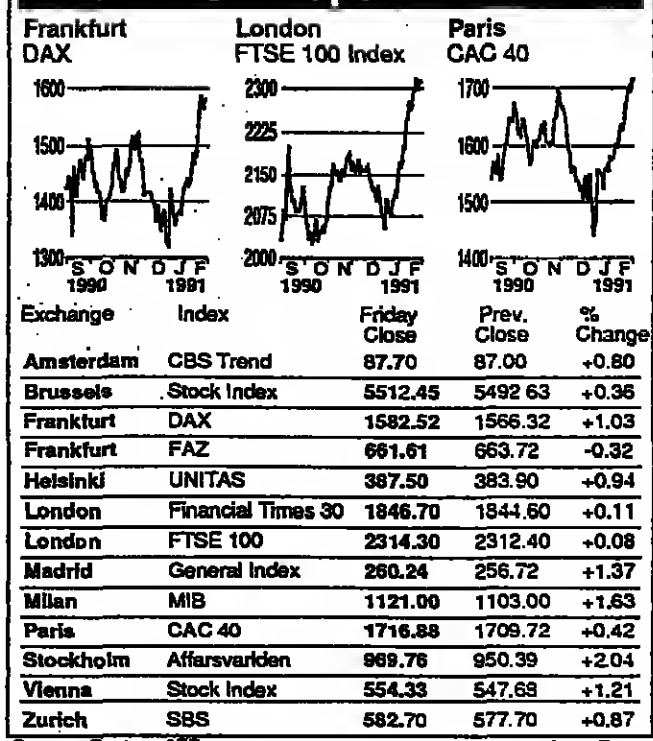
At a meeting of the group in support for the lobby seems to be with Nat-Ned's rival insurer Aegon, which claims an interest of over 10 percent in Nat-Ned, plus private investors who are unlikely to command a significant holding.

But VEB denied this: "We have many more than one institution behind us," spokesman Luc Burlage said in The Hague.

"My gut reaction is that it is likely to fail," Jonathan Lawlor, analyst at Kleinwort Benson in London, said of the proxy effort to block the merger. But he added, "It might be a closer run than some had been assuming."

Analysts say Nat-Ned investors

Investor's Europe



Norway's Saga Petroleum Says Profit Rose 27% in '90

Reuters
OSLO— Saga Petroleum A/S, Norway's largest private oil firm, said on Friday its profit rose 27 percent to 1.16 billion kroner (\$199 million) in 1990.
The figure reflected profit before

Saga attributed the improvement to higher oil prices and greater North Sea oil production.

More Cuts at British Steel

Compiled by Our Staff From Dispatches

LONDON — British Steel PLC announced on Friday 1,100 job cuts at its Ravenscraig plant in Scotland, and said it would close one of the two blast furnaces at the plant.

The cuts, effective at the end of July, are in addition to the elimination of 770 jobs announced by the company last week. All plant sectors, including management, will be affected, the company said.

A spokesman for British Steel ruled out any transfers of Ravenscraig workers to other plants in Britain. The Ravenscraig plant now employs 2,300 workers.

A company statement said the cuts were required because of continuing decline in demand and weak prices for strip-steel products.

Due to restructuring, the number of British Steel employees will drop from 52,500 to under 50,000 by the end of the financial year in March, the spokesman said.

(AFP, Reuters)

REBUILD: Contractors Scramble for Share in Kuwait Effort That May Total \$100 Billion

(Continued from page 1)

ternational Business Machines Corp., mobile phones from Motorola Inc. and generators from Caterpillar Inc. for that emergency stage.

The Corps of Engineers awarded a \$5.7 million contract to Raytheon Services Co. to supply emergency air traffic control facilities, runway lights, communications gear and other equipment to get Kuwait International Airport running again.

The big money will come later, however, when Kuwait totals the damage to oil production and refining facilities and to the infrastructure.

Some Kuwaiti officials have estimated that the price tag on the five-year rebuilding project could run as high as \$100 billion if Iraqi troops employed scorched-earth tactics, as Mr. Bush said Friday.

That would be more than the \$70 billion cost (in 1990 dollars) of the

Marshall Plan that rebuilt Western Europe after World War II.

In the event of an Iraqi pullout without a ground war, and without major destruction by the withdrawing Iraqi forces, earlier cost estimates ran from \$20 billion to \$40 billion.

In addition, individual Kuwaiti merchants and homeowners likely will spend vast sums to repair, rebuild and replace houses, other buildings and personal belongings damaged or looted.

Kuwaiti officials have promised that the bulk of the contracts will go to companies in countries that have actively supported the liberation effort.

"The old policy of the lowest bidder no longer exists as far as we are concerned," said Sheikh Sand Nasir al Sabah, Kuwait's ambassador to Washington.

"We will do it with our allies," he added.

British contractors are pressing for a major share of the rebuilding contracts. Foreign Secretary Douglas Hurd led a delegation of British contractors to the Saudi Arabian city of Taif, where Kuwait has established its government in exile, to make a high-level plea for a large part of the reconstruction work.

Britain filed an official complaint Wednesday with the United States because British construction companies were given just 48 hours to register with the U.S. Army Corps of Engineers for the initial cleanup contracts.

[The Corps of Engineers has denied it discriminated against British contractors. Reuters reported Friday from London. A statement issued by the U.S. Embassy in London quoted a spokesman for the corps as saying British criticism was "unfair and based on a misunderstanding of our procurement process."]

After securing the country providing for the estimated 300 Kuwaitis who remained in Kuwait after the Iraqi invasion, Kuwait government's top priority was to revive oil production and to restore the country, according to Kuwaiti officials.

Sheikh Saïd said that Kuwaiti specialists are seeking help from other countries to build the oil facilities and other pre-fabricated facilities to rebuild and restore. "We have the blueprints, the knowledge and the spare parts to get back to operation," he said.

Even before Friday's oil embargo, the U.S. State Department's Multilateral Co. of Dallas, for instance, was talking to Kuwait about any needed repairs to the 10-year-old, \$2 billion Mina al-Fahal oil refinery that it built in 1975. W. Kellogg Co., a subsidiary of Houston-based Dresser Industries Inc., had been dealing with Kuwaiti officials about restarting the world's largest liquid propane

The big winners among the American contractors are likely to be companies that have long experience in the region. Bechtel Group Inc. is widely expected to be named by Kuwait as prime contractor.

A Bechtel spokesman, Michael Kidder, said the company was talking to Kuwait about restoration of oil production, but he insisted no contracts had been signed.

Other major players are expected to be Fluor Corp., which is a worldwide leader in managing large oil production and refining projects, and Parsons Corp., a construction and engineering concern that has operated in Kuwait for 30 years.

Oil specialists such as Dresser, Schlumberger Ltd. and Parker Drilling Co. are likely to win contracts to help repair oil fields that were set ablaze.

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Quotations supplied by funds listed. Net asset value quotations are supplied by the Funds listed with the exception of some quotes based on issue price.
The numerical symbols indicate frequency of quotations supplied: d-daily; w-weekly; b-bi-monthly; r-regularly; s-twice weekly; m-monthly.

and S.A. ——— 5 99.51 | W. GAM Road Ed Inc. US Soc. — 5 132.51 | d. JF. Jones Sm Co Tr ——— Y 82/16.00 | W. Winch Hldg ISS ——— 5

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To our first Editor

Both the fax and telex numbers for updating funds prices have changed. Please now send these to:
Fax (33-1) 40 28 07 77
Tlx 215 326 (MPAL F).

For information on how to have your fund listed, fax Simon OSBORN on (33-1) 46 37 52 12

Hitachi and Toshiba Cut Profit Estimates

TOKYO — Toshiba Corp. and Hitachi Ltd. on Friday cut their profit estimates for the current financial year, with Hitachi forecasting its first year-on-year profit decline in four years.

The moves reflect the fact that Japan's electronics firms have been battered by falling prices for microchips and sluggish computer sales, industry analysts said.

Toshiba, the biggest supplier of memory chips to the world market, cut its parent net profit forecast for the year ending March 31, to about 96.9 billion yen (\$799 million), the same as the year before, but far below its previous estimate of 110 billion yen, a spokesman said.

Estimates of parent current profit and sales for the year were also lowered.

Hitachi would not comment on expected net profit. But it lowered its parent current profit forecast for the year to March 31 to 203 billion yen from 225 billion yen, a spokesman said. Current profit for the year before was 220.84 billion yen.

Honda Predicts Decline in Net

TOKYO — Honda Motor Co. said Friday that it expected a decline in group net profit and sales in the second half of the year ending March 31.

A spokesman declined to provide exact figures. In November, the company forecast profit for the year of 82.4 billion yen (\$630 million), against 81.68 billion in 1989. Meanwhile, the Japan Automobile Manufacturers Association said Friday that vehicle production jumped 16.2 percent in January from a year earlier.

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AMSTERDAM DEPOSITORY COMPANY N.V.
Amsterdam, February 20, 1990.

S & P Reduces Debt Rating of Bank of Tokyo

Agence France-Press

TOKYO — Standard & Poor's Corp. has downgraded its rating on the long-term senior debt of Bank of Tokyo Ltd., the U.S. agency's Tokyo unit said Friday.

The rating was revised from double-A to double-A-minus to reflect the bank's lower net income from domestic business amid higher interest rates and the stock market fall, Standard & Poor's said.

The foreign business of the country's biggest foreign exchange bank is troubled by its large portfolio of loans to developing countries, some of which are not paying interest.

Earlier this month, Standard & Poor's downgraded the gross national product growth by a real 5 percent in 1990, up from 4 percent growth the year before.

China Sees Threats to Growth

Compiled by Our Staff From Dispatches

BEIJING — China's economy grew by 5 percent last year and its trade balance moved back into surplus, but the economy is threatened by mounting losses at state industries and inflationary pressures, a senior official said Friday.

"The foundation of the economic upturn is weak," Zhang Zhongli, spokesman for the State Statistical Bureau, said at a news conference.

"The most obvious manifestations are increasing excess inventories, declining economic efficiency, intensifying financial problems and increasing potential inflationary pressures," he said.

These chronic economic ailments may cause the government to slam the brakes on the economy to keep inflation controlled, analysts said. That would repeat a cycle of growth and retrenchment that has afflicted the economy in recent years.

The warnings came despite news that gross national product grew by a real 5 percent in 1990, up from 4 percent growth the year before.

Exports grew by a booming 18.1 percent while imports declined by 9.8 percent. That gave China a trade surplus of \$8.71 billion, its first surplus since 1984, and a sharp reversal from a deficit of \$6.6 billion in 1989.

Inflation fell to 2.1 percent in 1990 from 17.8 percent in 1989. One reason for the drop, Mr. Zhang said, was that the policy of adjusting prices to market levels "was not fully implemented."

But he said that December cost-of-living rises for workers in many cities approached or exceeded 10 percent, meaning that the battle against inflation must be renewed.

A Western diplomat said many in government were worried that inflation could get out of control, which could arouse popular dissatisfaction. Pro-democracy demonstrations and unrest in 1989 came in the wake of a spike in inflation that hit 30 percent in cities.

Mr. Zhang said some 31 percent of state-run enterprises were operating at a loss last year, up from 28 percent the year before.

Overall profits at state-run enterprises dropped 58 percent last year, and unsold inventories mounted. The government has pumped billions of dollars in new loans into the economy to stimulate production, but much of that money has gone to waste.

Bank loans increased in value by 22 percent in 1990, "far above the rate of economic growth," Mr. Zhang said.

The cost of supporting inefficient enterprises, combined with price increases to help cover price increases, is hurting the government's financial position, Mr. Zhang said.

The two measures cost about 100 billion yuan (\$19.1 billion), or one-third of government revenues, every year.

In Taipei, the Board of Foreign Trade said indirect trade between Taiwan and China grew 16.1 percent last year to a record of \$4.04 billion. Exports to the mainland climbed 13.2 percent, to \$3.28 billion, while imports registered a huge 30.4 percent rise, to \$765 million. (Reuters, AFP)

Investor's Asia			
Hong Kong Hang Seng	Singapore Straits Times	Tokyo Nikkei 225	
3500	1400	27500	
3000	1200	25000	
2500	1000	22500	
2000	800	20000	
1500	600	17500	
1000	400	15000	
500	200	12500	
0	0	10000	
1990	1991	1990	1991
Exchange Index	Friday Close	Prev. Close	% Change
Hong Kong Hang Seng	3475.34	3477.61	-0.07
Singapore Straits Times	1410.45	1387.30	+1.67
Sydney All Ordinaries	1387.30	1367.85	+1.42
Tokyo Nikkei 225	25902.81	26034.37	-0.47
Kuala Lumpur Composite	558.65	554.42	+0.76
Bangkok Book Club	N.A.	687.42	
Seoul Composite Stock	676.70	672.10	+0.69
Taipei Weighted Price	4873.67	5181.98	-5.95
Manila Composite	956.02	931.22	+2.66
Jakarta Stock Index	419.53	388.25	+9.06
New Zealand Barclays	1331.32	1325.58	+0.43
Bombay National Index	575.87	570.98	+0.85

Sources: Reuters, AFP

International Herald Tribune

Malaysia Envisions a Joining of East Asia's Economic Forces

Malaysia has started talks with East Asian nations, from Japan and China in the north to Indonesia in the south, to increase the region's economic power.

Rafidah Aziz, the Malaysian minister of international trade and industry, discussed with Michael Richardson of the International Herald Tribune his country's proposal for an economic grouping.

Q. Why does Malaysia want to form an East Asian economic grouping?

A. We looked at the impasse in the Uruguay Round of global free trade talks. We saw how Europe and America were forming closer economic ties. We realized that East Asia is a region of dynamic economic growth with great future potential.

But unless we cooperate and get our act together, we may not be able to exploit that potential in full. We could lose out to Europe and America unless we make our re-

gion more attractive for trade and foreign investment. Markets are being more systematically arranged elsewhere. Why can't we do that so that people do not bypass us?

Q. Would the association give preference to trade and investment of member states and raise protectionist barriers against nonmembers, particularly European and American countries?

A. No. It would be consistent with GATT, the General Agreement on Tariffs and Trade. While promoting regional trade, we should not stop or divert trade with nations outside the region.

It would be like the U.S.-Canada free trade agreement, which enhances trade between the United States and Canada but is not detrimental to other trading partners.

Q. How much support have you gained for the proposal?

A. I would say that all members of the

Association of South East Asian Nations — Indonesia, Malaysia, the Philippines, Singapore, Thailand and Brunei — have agreed to the concept. ASEAN officials will now flesh out the details.

Q. Japan, China and Indonesia seemed to have reservations when Malaysia first talked of an East Asian trade bloc.

A. Since we have explained what we have in mind, Indonesia has accepted the principle. We have given China, Japan and other interested countries a paper outlining our proposal. I will follow up with discussions in these countries, beginning with a visit to Tokyo in April.

We want to make it clear that an East Asian economic grouping will not be protectionist, inward-looking or a negative trade bloc. So I can see no reason why there should be any hesitation in supporting the proposal.

Q. How would this economic association work in practice?

A. We are talking about a long-term program based on step-by-step evolution. To start with, the group would be formed on a loose, consultative basis. We would focus on issues of common interest. We can start by helping to break the impasse in the Uruguay Round. Reducing protectionism and promoting more liberal international trade would be of substantial benefit for us all.

Respective of the outcome of the Uruguay Round, there are things that we can do in East Asia to synergize our economic potential. We could develop strategies to enhance regional trade and investment. We could harmonize some of our foreign investment laws so that we no longer undercut each other in bidding for funds.

Q. Which countries is Malaysia proposing should join the group?

A. We do not have an exclusion list. We think that ASEAN should decide the membership. Initially, we see ASEAN as the core and its East Asian neighbors the most logical additional members. Later on, if other countries want to join, why not?

Q. What role do you see for Japan and its powerful economy in an East Asian economic association? How can the group prevent Japanese domination?

A. We would be equal partners. Japan must logically be a member because it belongs to this region. It is an economic leader for the world, not just East Asia. The trade and investment benefits for East Asian countries would be tremendous if Japan had an economic leadership role. Japan is also a member of the G-7 group of leading industrial nations. East Asian countries have not been able to bring their concerns to the G-7 before. Japan could act as a conduit between us and the G-7 countries.

GREENSPAN: Puzzling to Find the Perfect Rate

(Continued from first finance page)

Reckless lending practices in the 1980s, much of it resulting from the favorable tax treatment of real estate projects, left banks with many bad loans. When the bubble burst, bankers became "very chary about extending credit, which would undercut their capital positions" and perhaps lead investors to feel the banks were undercapitalized. And "superimposed on top of that," Mr. Greenspan said in his testimony,

some bank examiners, blamed for not having been tough enough in the past, became unreasonably tight in their supervision.

But the cure has proved elusive. Since the fall, the Federal Reserve has taken a series of forceful steps, lowering interest rates and cutting the amount of reserves banks are required to hold, to improve bank profits and thus make renewed lending more attractive. But so far they have not worked.

In his testimony this week, Mr. Greenspan promised new steps. He said new regulations to be announced soon would change the way real estate collateral is recorded on banks' books.

And for the first time, he encouraged banks to begin borrowing directly from the Federal Reserve at a rate lower than commercial rates. But he conceded that he saw no clear evidence that the credit situation had begun to ease.

NYSE

Friday's Closing

Tables include the nationwide prices up to the closing on Wall Street and do not reflect late trades elsewhere. See The Associated Press.

(Continued)

12 Month

High Low

Div. Yld. PE

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NYSE

Friday's Closing

Tables include the nationwide prices up to the closing on Wall Street and do not reflect late trades elsewhere. See The Associated Press.

(Continued)

12 Month

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Friday's Prices
 NASDAQ prices as of 4 p.m. New York time.
 List compiled by the AP, consists of the 1,000
 most traded securities in terms of dollar value. It is
 updated twice a year.

Month	Low	Stock	Dlv	Yld	PE	Sis	100s	High	Low	4 P.M.	Ctr
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[illegible]

Friday's Closing
as include the anti-inflation price

Friday's Closing
Tables include the nationwide prices up to the closing on Wall Street and do not reflect late trades elsewhere. Via The Associated Press

[illegible]

20	Agm	1.57	43	16	24	35	33	24	1
21	Agm	1.57	43	16	24	35	33	24	1
22	Agm	1.57	43	16	24	35	33	24	1
23	Agm	1.57	43	16	24	35	33	24	1
24	Agm	1.57	43	16	24	35	33	24	1
25	Agm	1.57	43	16	24	35	33	24	1
26	Agm	1.57	43	16	24	35	33	24	1
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51	Agm	1.57	43	16	24	35	33	24	1
52	Agm	1.57	43	16	24	35	33	24	1
53	Agm	1.57	43	16	24	35	33	24	1
54	Agm	1.57	43	16	24	35	33	24	1
55	Agm	1.57	43	16	24	35	33	24	1
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FIRST COLUMN

On Hedging: Buy, Sell, Hold Cash

THERE is at least one stock market adviser that we can guarantee will be right. An analyst at one international brokerage said in a recent issue of his company's newsletter that investors should buy some issues, sell others and hold on to cash.

His clients, especially those holding on to less cash than they used to, might not find his advice all that useful, but maybe the analyst should be forgiven for so nakedly hedging his bets. After all, he has to live with the curse of his profession: The markets move contrary to the way most forecasters expect they will.

Think back to last fall, when war and recession were just around the corner and stock looked to be on the road to oblivion. Many analysts were warning that the soaring price of oil could go even higher and drag the world economy into a more severe slump. Stocks could fall even further, they said, maybe below 2,000 on the Dow industrials. Maybe below 1,000.

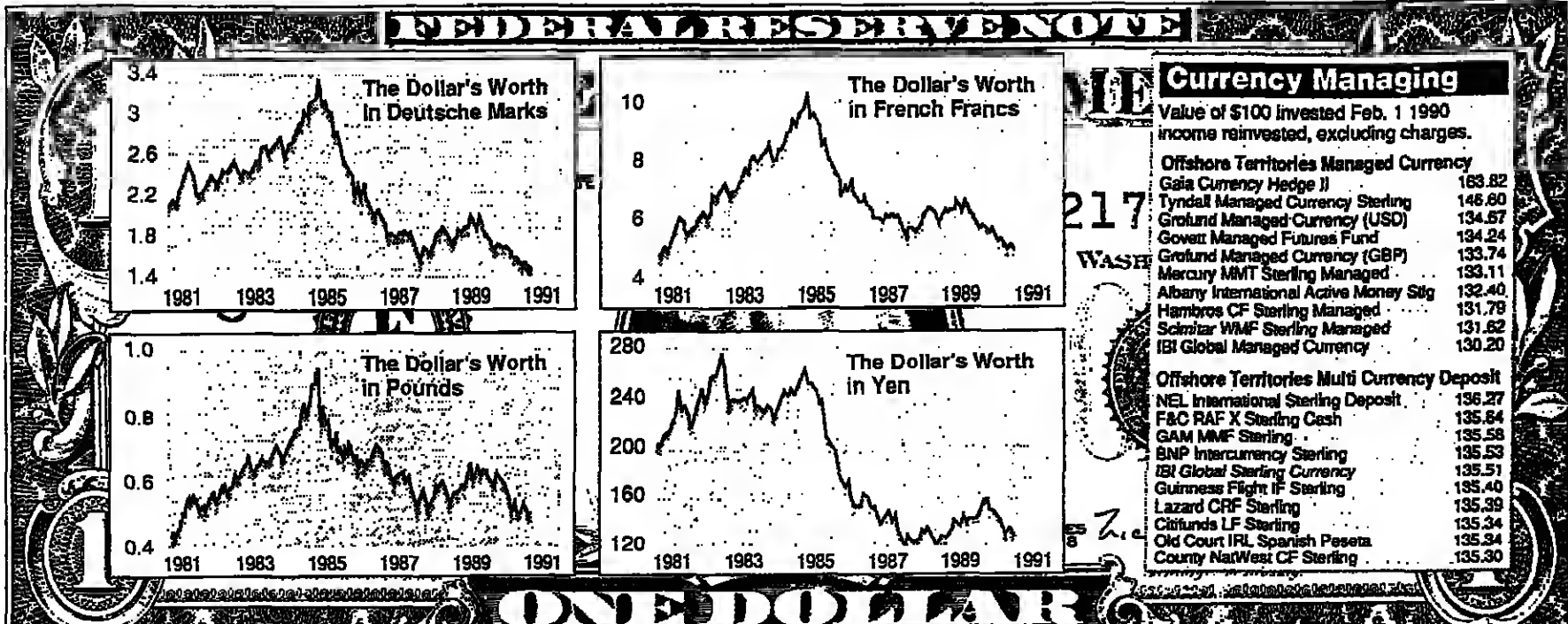
The recession arrived by government proclamation rather than the war started. The stock market rocketed higher. Why? Human nature. People have always feared the worst and expected the best before they happened, and they tend not to wait around to see how events unfold before acting on them.

Today's glut of investment opinion is swiftly and efficiently communicated, and the process of anticipation is therefore all the more efficient. So when the consensus among forecasters was that the world was becoming a gloomier place to live and make money in, investors took the advice and sold.

BY the time the war began, everyone who was going to sell had already done it. There was only one way for the markets to move.

The war will be short, the analysts tell us now, and so will the recession. Even though economists are no better at predicting the future than stock pickers, it's hard to find a bear on Wall Street. In fact, four services that track the opinions of investment advisers found that bullishness had leaped substantially in the last couple of weeks, right along with the stock market.

If history repeats itself, and it almost always does, that means a top is in the making. Your broker's advice? Possibly the sale of stocks. Of course, calling a market top isn't easy, or is fighting a trend, so it might not be a bad idea to buy some issues. Then again, maybe the best thing to do is to hold on to cash.



Strong Strategies for a Bottomed-Out Dollar

By Martin Baker

THE big question is still, in some minds, unanswered: Has the dollar bottomed out? After a week on the foreign exchanges when the dollar produced an encouragingly strong performance for those who suggest it has hit the lows of its present cycle, the greenback finished poorly toward the weekend.

Friday trade in Tokyo pegged the U.S. currency back 0.85 yen to 130.85. In Europe, the Deutsche mark picked up value in early trade against the dollar. The German currency was quoted in Frankfurt at more than a penny stronger at around 1.485. The dollar lost ground against the mark in London, too. It fell back from Thursday's levels, when deals had been done at more than 1.50 per unit of U.S. currency.

The reasons given by foreign exchange dealers for pegging back dollar rates might strike dollar watchers as quaint, to say the least. There was reported concern in the dealing rooms over the prospect of peace breaking out in the Gulf.

Traditionalists who cited the dollar as a good currency hedge in times of crisis have been confounded by steady declines since the Iraqi tanks rolled into Kuwait last August. Until this week, the prospects for the end of the war have been cited by dealers as a good argument for a revival in the dollar's fortunes.

Alan Greenspan, chairman of the board of

governors of the U.S. Fed, recently said that the outcome of the war would be critical to the depth and severity of the U.S. recession. A short war would mean a mild recession, a long war would bring on a sharp one.

And the markets looked to have made all the important calls. The war was going to be short, the recession mild — and the dollar was going to be a buy.

But the prospects of political compromise and a less than clear-cut military victory have temporarily obscured that view in some people's eyes.

The fact, however, remains that two weeks ago the dollar fell to an all-time low against European currencies such as the Deutsche mark and the lire, and traded below two to the pound against the British currency. The Money Report called the bottom on the dollar last week in its editorial First Column. Since then, the greenback has improved significantly against sterling and is sharply up from its 1.41 lowest rate against the German currency.

"Has the dollar bottomed out? I think it hasn't, we're very close to it," says John Paulus, chief economist of the Morgan Stanley group in New York. "It depends on the depth of the recession and its duration. We're predicting the dollar a little lower — at 131 — in three months, but stronger over 12 months, at 138. Unfortunately, I can't really disagree with your call."

Morgan Stanley also projects a continued improvement against the Deutsche mark to 1.50 in three months and 1.60 in 12 months.

OTHERS can disagree, and do. Gerald Holtham, chief economist at Shearson Lehman Brothers in London, thinks the dollar has further to fall before it makes a long-term recovery.

"I see substantially lower interest rates in the U.S. by the end of the year," he says. "But they won't be so much lower in Europe." Mr. Holtham predicts a rate of 1.40 against the Deutsche mark, and 120 against the yen before the upward swing starts.

Philip Saunders, currency and fixed interest manager at the investment house Guinness Flight, believes "the dollar is probably bottoming — in a saucer-shaped bottom, not a V-shape. It won't take off."

Mr. Saunders sees an analogy between analysts' attempts to call the top of the dollar's dramatic rise in the 1980s, and current efforts to predict its bottom line.

"Lots of people called the top in 1984, and it just steamed on another 20 percent," he said. In other words, for a dollar correction the question is not one of if, but when.

"The dollar will turn when it gets to a level where it's unsustainable, where people say 'this is crazy.' Until then, its value will mainly be determined by interest rates," says Mr. Holtham.

Whether the dollar is already on the way back — as the Money Report argues — or not, one thing is certain. Dollar-based investors and income earners have had a torrid time of it over the last five years, especially if

they have liabilities — such as rent, home loans, school fees — in foreign currency.

There is an important point of personal financial planning to be made here: It almost always makes good sense to match liabilities against your ability to meet them.

Take the case of the international investor who decides to buy property in France. If the investor earns dollars, the purchase can be conveniently funded through a dollar loan. The French franc-denominated value of the property may fluctuate as a result of currency moves, but the size of the loan will not fluctuate because of foreign exchange gyrations.

If that sort of matching cannot be done, investors have several ways of protecting their purchasing power.

Sophisticated investors who know they will have foreign currency debts to meet from dollar assets or income will simply call up their brokers and cover their future liability by buying the foreign currencies forward.

Currency funds offer an uncomplicated way of hedging risk. Most funds will accept minimum deposits of just \$1,000. After initial charges of around 3 percent, cash is invested in a variety of foreign currency instruments selected by the fund managers. Our tables show the results attained by simple deposit accounts and actively managed funds over one year.

But investors who believe the dollar is on the way up will not, of course, want to hedge into other currencies.

Relocating: The Homes Left Behind

By Tony Wakeford

WITH a high level of home ownership worldwide, but especially in the U.S. and the U.K., managers posted overseas will often already own homes in their native countries, probably subject to a mortgage loan.

Should they sell, leave their homes empty, or let them?

The right answer depends on a whole host of personal and financial factors, of which taxation is but one.

Leaving it empty — There may be all sorts of potential nontax problems here: physical deterioration, vandalism, squatting and so on. Another burden may be property taxes.

If the property is left in a state of readiness for occupation at any time, this might render the owner technically resident in the home country for home country tax purposes.

This is not usually a problem for the U.K. expatriate, if working full time outside the U.K., but a spouse not working full time may be deemed to be resident in the U.K. for any tax year of a visit, however short. That can create income and capital tax problems.

U.S. nationals working outside their home country are required to file U.S. returns, and pay tax, on a citizenship basis, although IRS records seem to show that there is a lot of innocent (and perhaps not so innocent) non-compliance.

Selling — The U.S. capital gains tax rules are fortunately reasonably generous in these circumstances, so that the U.S. home should continue to qualify for principal residence status for several years, with a consequent right to a roll-over of any gain (or disposal against the cost of another residence of equal or greater value purchased within four years before or after the disposal). The U.K. normally gives an outright exemption on a gain on the disposal of a principal private residence, and the restriction of exemption related to nonoccupation during an absence does not apply if the absence is to work overseas. Often, however, the expatriates need not worry about home country capital gains tax, because typically this is charged only on individuals resident in the home country. If assigned to a territory with which the home country has a double taxation agreement, there may be further protection under the agreement (although, then, possibly at the cost of being exposed to capital gains tax in his host country).

If, despite all else, there is still a potential capital gains tax charge, it is sometimes possible to arrange to effect disposals following the completion of the assignment and during a brief sojourn in a third country, before resuming permanent residence in his home country.

Letting — It is rarely possible to escape home country income tax on letting income. The individual will want to think very hard about what deductions to claim, and take care to retain vouchers and invoices to substantiate this. Typically a real estate firm in the home country will be managing the lettings, but it may be well worth the individual's while to instruct a professional firm to file the tax returns.

In some countries, for instance the U.K., in the case of a nonresident landlord there is a general duty on the tenant to withhold tax at source, and agents love to sit on this money to earn a bit of extra interest income.

Unless the individual's own equity in the property is large, interest deductions can often wipe out liability in both jurisdictions. The Gulf War has influenced the whole pattern of expatriation, but those still posted abroad are now even more likely to want to keep a toehold in the property market in their home country. With careful thought and planning, such individuals can make taxation work for them, not against them.

TONY WAKEFORD is managing director of London-based tax practitioners J. Warwick Hardy.

BRIEFCASE

London's ISE Launches Second Eurotrack Index

The International Stock Exchange (ISE) of London launches its second index of European shares on Monday.

The FT-SE Eurotrack 200 will reflect the value of British shares — which account for 40 percent of European share capital — and other European stocks.

The FT-SE Eurotrack 100 index, launched last fall, was widely criticized for its failure to represent British share values.

The new index will have a 40 percent British weighting.

"What makes the Eurotrack 200 unique is the fact that all the shares are traded on one exchange."

Other European indexes take prices from a various markets," said an ISE spokesman.

Individual investors can expect a wide range of financial products to be traded on the back of the new index — futures contracts, options and mutual funds tracking the value of the index are in various stages of development, according to industry observers.

Spain Decides to Tighten Controls on Bearer Checks

Spain's financial authorities have moved to tighten controls on bearer checks — pieces of paper drawn against a bank account that entitle the bearer to be paid money from that account.

The Spanish Association of Private Banking requires private banks and savings banks to identify holders of the bearer checks. The initiative for the move came from the Spanish central bank, which wants to unscramble undeclared income in Spain, which has been estimated at some \$550 million per annum.

U.K. Repossession Rate Tied to High Credit Rate

Times are hard for British homeowners. The U.K. government recently pegged British interest rates down half a point to 13.5 percent, but that came too late for 43,890 borrowers who lost possession of their homes.

The 1990 figure of the dispossessed is more than three times higher than repossessions for 1989. It is the highest since the Council of Mortgage Lenders (CML) began keeping records, 11 years ago.

The CML blamed the high repossession rate on the high cost of British credit, and the slump in U.K. property prices.

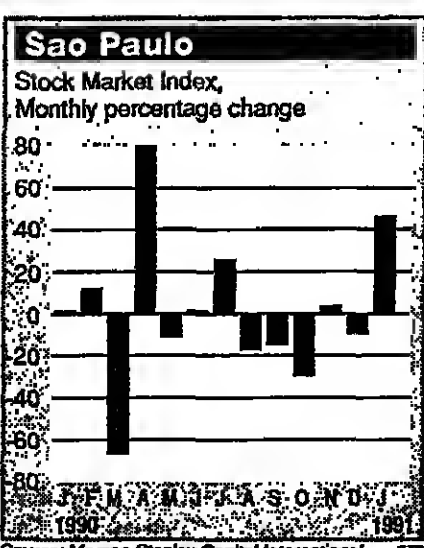
Small Companies Buying Mortgage Corporation Book

Troubled homeowners mean less secure assets and lower profits for lenders. The Mortgage Corporation (TMC), a subsidiary of Salomon Brothers, has found a neat solution to its problems.

Using the provisions of the Business Expansion Scheme (BES), a device to encourage direct share ownership through tax incentives, TMC is selling its mortgage book. The buyers are small companies qualifying under the BES, which will hold the properties for five years, after which they can exercise an option to make TMC repurchase at a 50 percent uplift.

The lender benefits from a cash injection for assets of possibly suspect quality, the borrower benefits from a suspension of loan repayments, and the investor benefits from the tax break.

According to the issuer's projections a higher rate U.K. taxpayer would benefit by a compounded 18.1 percent per annum over



five years, assuming the property market did not rise more than 50 percent and the options were exercised.

For more information, telephone financial advisers Pall Mall Money, in London (44 71)

839 4272, or Chancery Securities (44 71) 722 5300.

South American Markets Among the Best and Worst

South American stock investment is something of a novelty for the international investor. Some of the best — and worst — performers on the international scene were recorded on that continent last year.

While Mexico was a major beneficiary of the fears over oil spurred by the Gulf crisis, Brazil had a catastrophic year. The Sao Paulo market fell almost 70 percent in 1990.

In an effort to improve the attractiveness of Brazilian shares, the government has just announced new stock exchange rules. The main effect of the new rules is to limit the use of preferential shares. These shares typically offer attractive dividends, but do not confer voting rights or the power to control a company. More takeovers, it is hoped, will help boost flagging price levels.

The costs and regulation of stock exchange members will also be eased. Dividend payments will be indexed, and new accounting practices are to be adopted.

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GBP, England	11%	10%
ESP, Spain	12%	12%
ECU, European Currency Unit	(*)subject to alteration	8%

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THE MONEY REPORT

Lisbon: New Privatizations, Old Problems

By Barbara Rosen

HEARING that some people made a fast 60 percent on shares in a privatized Portuguese company can sound awfully inviting. But that's only part of the story. The Portuguese government's privatization program began in 1989 and was going along well until a flop in November. Then, underwriters were left with 35 percent of the shares in the brewer Centralcer. The following month, the successful sale of 33 percent of Banco Portugues do Atlantico restored some rosiness to the picture. And, this month the Portuguese finance minister announced that the privatization program, suspended because of the Gulf War, would soon resume.

But on a more fundamental level, experts say, the Portuguese privatization process has some problems that need fixing. In particular they cite the government's efforts to keep companies, especially those

considered of national interest like major banks, in Portuguese hands by limiting foreign buying. "They wish to favor the very Portuguese who were nationalized back in '75; however, they don't have very much money," says one investment banker.

For the big companies like Simpor (cement) and Petrolgal (oil refining), "if they really want to sell them they will have to lift restrictions on foreigners," adds a source at Finantia SA, a Lisbon merchant bank that has worked on appraising and placing issues of some companies.

"It's a political matter more than anything else," Luisa Sykes, Portugal analyst at London brokers James Capel & Co., says of the government's limits on foreign buying. "It's not very pragmatic." Analysts describe the Portuguese stock market as new and vulnerable. Both Lisbon and Oporto exchanges were closed by the 1974 revolution; it took twelve years and EC membership before business picked up.

More than half the stock in cir-

culation in Portugal is in the hands of foreigners — who are typically the first to pull out in a crisis, says Ms. Sykes, adding that the BTA index of the Lisbon stock exchange fell 34.79 percent in 1990, second only to Tokyo.

A year ago, everyone was bullish on Portugal, says Harold Hutchinson of the brokerage Carnegie International Ltd. in London. Now, he says, "even the corporate sector seems to be getting a bit wary," adding that the main interest in the privatizing companies is coming from other firms in the same business.

Mr. Hutchinson points to the sale, in April 1989 and June 1990, of Unicer, Portugal's largest brewer. It came to market priced at 20 times prospective earnings, and people fought for shares, he said.

In October 1990, he adds, Centralcer, the second-largest brewer, came to market at the same multiple and flopped. Moreover, he adds, while brewing is among Portugal's most attractive sectors, Unicer managed to snap up 31 percent of Centralcer — creating an effective monopoly that illustrates a lack of outside interest and does little to promote broader share-ownership.

Unicer, of which 49 percent was sold at 2,500 escudos a share and 51 percent at 4,500 escudos a share, closed Thursday at 3,500 escudos.

Centralcer, offered to the public at 3,500 a share, has not yet begun trading.

Some say Centralcer probably was overpriced. But price was just one of several factors affecting the

sale, says Fernando Ulrich, executive vice president of Banco Portugues Investimento SA, which advised on pricing and led the underwriting syndicates for both brewers, and which sold all its Centralcer shares.

Mr. Ulrich said all indications had shown institutional demand would be strong at the price set, and added that plenty of attractive-

ly priced stocks fail to find buyers these days.

"For a small investor, I would wait a while," says a Portuguese investment banker. "Until now we have had the rosy period after the EEC accession, with optimism fed by plentiful subsidies."

"Now things will become more difficult," he said. "Now we have to be competitive."

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Lawrence of Arabia on a Brough Superior. A similar model was recently sold at auction for \$68,000.

Slump Spurs Buys in Bikes

By Mike Sweeney

CLASSIC bike enthusiasts are rubbing their hands in glee. A slump in the market has resulted in prices fetched by all but the most collectible machines dropping by an average of 20 percent. Speculators, as opposed to grassroots enthusiasts, have taken a beating — though not as badly as their four-wheeled counterparts, it must be said.

The "speculator" is perhaps highest on the wanted list in this particular subculture's rogues' gallery. The collector who bids that bit extra to secure a much sought-after machine is practically drummed out of polite classic bike society for putting machinery out of the reach of the ordinary fan.

These are aficionados, not investors. Ask them about prices and, until credentials are established by dropping passwords such as "Double-are-tee-two" (RRT2 Gold Star racing gearboxes) and E3134 camshafts, you can feel like the lone outsider walking into the dusty town, unseen eyes watching your every move from behind the window blinds.

The phenomenon is most marked in Britain, where all but the rarest old bikes are raced, rallied and ridden on the road by a smattering of enthusiasts. It's the underlying health in the British market, where the leading publication, *Classic Bikes*, sells 60,000 copies per month — plus the pound's strength against the dollar, which has reversed the usual flow of container loads of bikes to the United States.

The machines currently in the vogue include British vertical twins from the late '50s and early '60s, and Triumph Bonneville and BSA Gold Flashers are particularly popular, as are Norton Atlases and similar offerings from the Matchless AJS range. Collectors can expect to pay \$3,600 to \$5,000 for such machines in reasonable condition. As always, the very best machines sell for more — up to \$14,000 for concours d'elegance winners, if you can persuade the owner to part with something so cherished.

Those figures are about what you paid for a Triumph twin of almost any vintage. The British manufac-

turer is the only marque to have produced such machines in a readily traceable line from the 1930s to the present day. The prices make instructive comparison with the later, better, triple-cylinder machines from the same source, and modern machines. They also highlight that rarity alone is little guide to prices. A bike that was unreliable and neglected is generally little sought after now.

The well-regarded Triumph triples and similar BSA Rocket 3s from the 70s can reach up to \$12,000 in good road-going (not concours) condition. Harley Davidsons are also very popular at the moment as "lifestyle enhancement." U.S. celebrities like Mickey Rourke, Jack Nicholson, Warren Beatty and Cher like to be seen on them. British entertainers Billy Idol and Andy Kershaw own them, and royalty such as Viscount Linley and businessmen including Peter de Savary made playing at outlaw bikers very respectable.

So respectable, in fact, that Harley Davidsons, due to their simplicity and character have overtaken Honda as top seller in the U.S.

The boom did push up prices of the even more street-credible vintage Harleys, but general opinion is that these have passed their peak at the moment. An Illinois dealer, Mark Jackson, would expect late 30s Knucklehead in pristine condition to sell for \$20,000 and mid-50s Panheads, especially the rare 1955-56 models, will command similar prices. (Indian fours, no longer made, can reach \$25,000.) Most Harleys, however, go for far less. Mr. Jackson has a 1941 Knucklehead custom for \$6,000 — half the cost of a new bike from the factory.

Germany is happy hunting ground for Harleys of all ages, according to another dealer, Karsten Kracht, due to the legacy of U.S. troops bringing their own machines. Former British colonies, like Zimbabwe, are fruitful sources of interesting Brit iron.

Classic bike sales go in cycles. A boom in cheaper "starter" machinery is followed by a stronger market in the rarer machines as collectors "trade up." Prices are depressed now, but some market pundits say they are likely to start rising again.

T.E. Lawrence had the series of Brough Superiors he owned specially built for him by the factory. Then sold by George Brough as "the Rolls-Royce of motorcycles," they are just as highly regarded today.

Works racing machines with documented pedigrees are knocked down for apparently very inflated figures: often five or six times the sum a similar machine without such a history behind it makes. An endurance racing Bonneville from the mid-60s is currently on sale for \$30,000.

But that is small compared with the figures that can be reached by the very rarest machines. Britain's National Motorcycle Museum at Birmingham, displaying by far the most important collection in the world, is said to have paid over \$280,000 for another racing machine, but they will not say which of their collection of the 700 bikes in their possession it was. Much fun can be had guessing.

Demand outstrips supply for the Vincent V-twins, especially the sporty 1000cc Black Shadow, which can fetch \$32,000-\$36,000.

The Italian MV Augusta concern had a long racing pedigree, which has given the mark the same exotic aura as its four-wheel counterparts, Ferrari and Lamborghini. Prices of four-cylinder MVs can climb to well over \$40,000.

Single cylinder Max Nortons, Matchless GSUs and AJS 7Rs from the golden age of the Isle of Man Tourist Trophy races have been coveted. Quirkier ordinary Gold Stars can reach \$20,000, and over \$40,000 can be asked for machines with any sort of pedigree.

Italian Banks Edge Toward Growth

By David C. Lanchner

ITALIAN banks are on the verge of what many predict will be a period of rapid growth. A series of reforms that became effective late last year has freed the tightly regulated and largely state-owned industry to expand and consolidate.

In short, long-run, shares in Italian banks should prove very profitable says Soly Cohen, an analyst at the Milan stock brokerage Belloni Tedeschi. "Over 10 years, if everything goes right, bank investments could compound at 20 percent annually," he says.

Unlike the United States, Japan or other Western European countries, Italy is essentially an "underbanked" nation, according to analysts. Until the recent reforms, it was virtually impossible for existing banks to open up new branches without going through a prohibitively long and expensive application process with the bank of Italy. Tax laws that made mergers unattractive and a 1936 law that enforced a division between commercial lending and retail banks added to the sector's fragmentation. Italy is the world's fourth largest industrial power but none of its banks rank among the globe's top 30 in terms of assets.

"Italian banks need to restructure if they want to remain competitive in a single European market and the reforms are meant to encourage an overhaul," says Paolo Baccanelli, Italian market analyst at Schroeder Securities in London. The new laws eliminate regulatory barriers to new branches, provide tax incentives for mergers and free state-controlled banks to privatize up to 49 percent of their ownership through public share offerings.

"The strength of the banks and the advantages coming with the reforms are not yet fully acknowledged by investors," says Gabriele Mizio, an analyst at Swiss Bank Corp. in London. Shares in many banks remain

cheap largely because the resilient nature of Italian banking revenues is poorly understood by many foreign investors, explains Mr. Mizio.

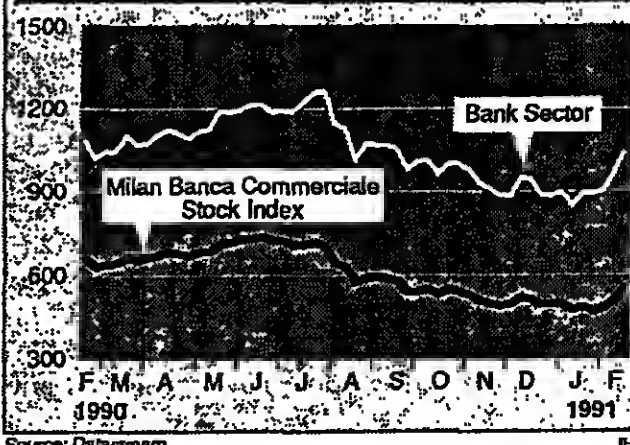
Many of the banking industry's strengths actually stem from the sector's and the nation's inefficiencies. The shortage of bank branches has allowed Italian banks to offer extremely low deposit rates while charging a fairly hefty interest rate on loans. "Some banks actually get away with offering only about 3 percent interest," says Mr. Cohen. Recently loans have typically carried charges amounting to about 13.5 percent a year.

Bottom lines at Italian banks are equally lousy in recessions, say analysts. Italian banks are prohibited from holding shares in non-banks — an extra layer of insulation against depressed markets. And they have largely stayed out of

the investment banking activities that have proved a drag on bank profits elsewhere. Italian banks make up for lost loan activity during recessions by reinvesting in Italian Government Treasury bonds. At 141 trillion lire, Italy has the largest budget deficit of any nation. To fill the immense revenue gap, the state must turn to the bond market where banks pick up large, liquid government guaranteed issues with attractive interest rates.

Because of the increased dangers and competitive pressures that will accompany a makeover of Italian banking, analysts counsel investors to stick with well-managed banks that will clearly form the core of future consolidations. Among their favorite picks are Banco Lariano, Banco Ambrosiano Veneto and Banca Commerciale Italiana. Shares in all three banks sell for less than 14 times annual earnings.

Italy's Bank Sector: Looking Up



Source: Datastream

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